

**NEW ISSUE - BOOK-ENTRY ONLY**

**RATING: Moody's: Aaa**  
**Fitch: AAA**  
**Underlying Ratings: Moody's: A3**  
**Fitch: A**  
**(See "RATING" herein)**

*In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California ("Bond Counsel"), under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest (and original issue discount) on the Bonds is exempt from State of California personal income tax. The Authority has designated the Bonds as "bank qualified" under the provisions of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended. See "TAX MATTERS" herein with respect to other tax consequences with respect to the Bonds.*

**\$7,500,000**  
**BELMONT JOINT POWERS FINANCING AUTHORITY**  
**SEWER REVENUE BONDS**  
**SERIES 2001**  
**(BANK QUALIFIED)**

**Dated: Date of Delivery****Due: August 1, as shown below**

The Bonds are issuable in fully registered form and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. Individual purchases will be made in principal amounts of \$5,000 and integral multiples thereof and will be in book-entry form only. Purchasers of Bonds will not receive certificates representing their beneficial ownership in the Bonds but will receive credit balances on the books of their respective nominees. Interest on the Bonds, which is payable semiannually on each February 1 and August 1, commencing February 1, 2002, and the principal thereof are payable by the Trustee to Cede & Co., and such interest and principal payments are to be disbursed to the beneficial owners of the Bonds through their nominees.

**The Bonds are subject to optional and mandatory redemption as more fully described herein.**

The Bonds will be issued and secured pursuant to the terms of the Indenture. The Bonds are special obligations of the Belmont Joint Powers Financing Authority (the "Authority") payable solely from Revenues consisting generally of the Installment Payments to be made by the City of Belmont (the "City") and from amounts on deposit in certain funds and accounts held under the Indenture. No other funds of the Authority are pledged to or available for payment of the principal of or interest on the Bonds.

The Installment Payments securing the Bonds are special obligations of the City under the Installment Purchase Agreement secured by pledges of the System Net Revenues of the Sewer System of the City.

**Neither the faith and credit nor the taxing power of the State of California, the City of Belmont (the "City") or the Authority is pledged to the payment of the Bonds. The Bonds do not constitute a debt, liability or obligation of the State of California, the City (other than the Authority payable solely from the Revenues), and neither the directors of the Authority nor any persons executing the Bonds are liable personally on the Bonds by reason of their issuance. The Authority has no taxing power.**

Payment of the principal of and interest with respect to the Bonds when due will be insured by MBIA Insurance Corporation under a municipal bond insurance policy issued simultaneously with the issuance of the Bonds. (See "BOND INSURANCE" herein and Appendix G - Form of Insurance Policy).

**[MBIA LOGO]**

*This cover page contains certain information for reference only. It is not a summary of this issue. Investors must read the entire official statement to obtain information essential to the making of an informed investment decision. See "Risk Factors" herein for a discussion of certain of the risks to timely payment of the Bonds.*

**MATURITY SCHEDULE**  
**\$4,185,000 Serial Bonds**

<b>Maturity (August 1)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Price or Yield</b>	<b>CUSIP Number</b>	<b>Maturity (August 1)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Price or Yield</b>	<b>CUSIP Number</b>
2002	\$85,000	4.375%	2.00%	080178AA4	2013	\$195,000	4.375	4.25%	080178AM8
2003	140,000	4.375	2.25	080178AB2	2014	205,000	4.50	4.375	080178AN6
2004	145,000	4.375	2.60	080178AC0	2015	215,000	4.50	100	080178AP1
2005	140,000	4.375	2.80	080178AD8	2016	225,000	4.625	100	080178AQ9
2006	150,000	4.375	3.00	080178AE6	2017	235,000	4.75	100	080178AR7
2007	160,000	4.375	3.40	080178AF3	2018	245,000	4.75	100	080178AS5
2008	160,000	4.375	3.60	080178AG1	2019	250,000	4.80	100	080178AT3
2009	165,000	4.375	3.75	080178AH9	2020	270,000	4.90	100	080178AU0
2010	170,000	4.375	3.875	080178AJ5	2024	325,000	5.00	100	080178AW6
2011	180,000	4.375	4.00	080178AK2	2025	340,000	5.00	100	080178AX4
2012	185,000	4.375	4.125	080178AL0					

**\$885,000 4.90% Term Bonds Due August 1, 2023 Price 100% CUSIP Number 080178AV8**

**\$2,430,000 5.00% Term Bonds Due August 1, 2031 Price 100% CUSIP Number 080178AY2**

*The Bonds will be offered to the public when, as and if issued and received, subject to the approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California. Stradling Yocca Carlson & Rauth, a Professional Corporation, will also serve as Disclosure Counsel. Certain matters will be passed on for the Authority by the City Attorney. It is anticipated that the Bonds will be available for delivery to The Depository Trust Company in New York, New York on or about December 19, 2001.*

Dated: December 5, 2001

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement in connection with the offering made hereby and, if given or made, such other information or representations must not be relied upon as having been authorized by the Authority or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts.

The information set forth herein has been obtained from official sources other than the Authority (except for the section "THE AUTHORITY" and the first paragraph of the section "LITIGATION") which are believed to be reliable. The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, their responsibility to investors under the federal securities law as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. The information and expression of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the information provided herein since the date hereof.

**BELMONT JOINT POWERS FINANCING AUTHORITY  
SEWER REVENUE BONDS  
SERIES 2001**

**CITY COUNCIL/BOARD OF DIRECTORS**

David Warden, Mayor  
Paul Wright, Vice Mayor  
David Bauer, Member  
Terri Cook, Member  
George Metropulos, Member

**CITY STAFF**

Jere Kersnar, City Manager  
Howard E. Mason, Jr., Treasurer  
Thomas E. Fil, Finance Director  
Kathy Kern, City Clerk

**FINANCIAL ADVISOR**

Fieldman, Rolapp & Associates  
Irvine, California

**BOND COUNSEL**

Stradling Yocca Carlson & Rauth, a Professional Corporation  
San Francisco, California

**TRUSTEE/DISSEMINATION AGENT**

BNY Western Trust Company  
San Francisco, California

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**\$7,500,000**  
**BELMONT JOINT POWERS FINANCING AUTHORITY**  
**SEWER REVENUE BONDS**  
**SERIES 2001**

**INTRODUCTION**

**General.** This Official Statement, including the cover page and all appendices hereto, provides certain information concerning the sale and delivery of the Belmont Joint Powers Financing Authority Sewer Revenue Bonds, Series 2001 (the “Bonds”). Descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each document for complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each document. Capitalized terms used and not otherwise defined herein shall have the meanings ascribed to them in Appendix C hereto entitled “DEFINITIONS AND SUMMARY OF LEGAL DOCUMENTS.” This Introduction is subject in all respects to the more complete information contained in this Official Statement, and the offering of the Bonds to potential investors is made only by means of the entire Official Statement.

The Bonds are being issued pursuant to an Indenture, dated as of December 1, 2001 (the “Indenture”), by and between the Belmont Joint Powers Financing Authority (the “Authority”) and BNY Western Trust Company, as trustee (the “Trustee”). The Bonds are authorized pursuant to the terms of Chapter 5 of Division 7 of Title 1 of the California Government Code (the “Law”).

**The Authority.** The Authority is a joint exercise of powers agency created pursuant to the California Government Code and the Joint Exercise of Powers Agreement, dated as August 1, 1992 between the Belmont Redevelopment Agency (the “Agency”) and the City of Belmont (the “City”). For more information regarding the Authority, see “THE AUTHORITY” herein.

**Purpose.** The Bonds are being sold to finance certain improvements to the City’s sewer system, to fund the Reserve Fund and to pay the costs incurred in issuing the Bonds. See “FINANCING PLAN” herein.

**Security for the Bonds.** The Bonds will be issued and secured pursuant to the terms of the Indenture. The Bonds are special obligations of the Authority payable solely from Revenues consisting generally of the Installment Payments to be made by the City of Belmont and from amounts on deposit in certain funds and accounts held under the Indenture. Financial and other information concerning the City is in Appendix A attached hereto. No funds of the Authority other than the Revenues are pledged to or available for payment of the principal of or interest on the Bonds.

The Installment Payments securing the Bonds are special obligations of the City under the Installment Purchase Agreement entered into by the City with the Authority and dated as of December 1, 2001 (the “Installment Purchase Agreement”). The Installment Payments under the Installment Purchase Agreement are secured by a pledge of the System Net Revenues of the Sewer System of the City under the Installment Purchase Agreement.

**Neither the faith and credit nor the taxing power of the State of California, the City or the Authority is pledged to the payment of the Bonds. The Bonds do not constitute a debt, liability or obligation of the State of California, and neither the directors of the Authority nor any persons**

**executing the Bonds are liable personally on the Bonds by reason of their issuance. The Authority has no taxing power.**

For more information regarding the security for the Bonds, see "SECURITY FOR THE BONDS" herein.

***Additional Debt Test Under Installment Purchase Agreement.*** The Installment Purchase Agreement permits the City to enter into additional obligations secured by System Net Revenues on a parity with the Installment Payments provided that certain conditions are satisfied as described herein. For more information concerning the additional debt tests under the Installment Purchase Agreement, see "SECURITY FOR THE BONDS-Additional Debt Tests Under the Installment Purchase Agreement" herein.

***Rate Covenant Under Installment Purchase Agreement.*** The Installment Purchase Agreement will require the City, to the fullest extent permitted by law, to fix, prescribe and collect rates and charges and maintain its operations such that System Net Revenues will be equal to 100% of the Installment Payments and other Parity Debt of the City during each Fiscal Year, all as more particularly described herein. For more information concerning the rate covenants see "SECURITY FOR THE BONDS-Rate Covenant Under the Installment Purchase Agreement" herein.

***Rate Stabilization Fund.*** The City will establish a Rate Stabilization Fund and deposit an amount equal to 25% of Maximum Annual Debt Service into such fund on the date of issuance of the Bonds.

***The Reserve Fund.*** Concurrently with the issuance of the Bonds, the Trustee is to establish, maintain and hold in trust a separate fund designated as the Reserve Fund. Moneys available to the Reserve Fund will be used and withdrawn solely for the purpose of paying principal of and interest on the Bonds in the event Installment Payments deposited with the Trustee are insufficient therefor. For more information concerning the Reserve Fund, see "SECURITY FOR THE BONDS-Reserve Fund" herein.

***Bond Insurance.*** Payment of the principal of and interest with respect to the Bonds when due will be insured by MBIA Insurance Corporation under a municipal bond insurance policy issued simultaneously with the issuance of the Bonds. See "BOND INSURANCE" herein and Appendix G - Form of Insurance Policy.

***Competitive Sale of Bonds.*** The Bonds were sold at a competitive sale held on Wednesday, December 5, 2001 in accordance with the Notice of Sale attached to the front of the Preliminary Official Statement.

***Redemption.*** The Bonds are subject to optional and mandatory sinking fund redemption as described herein. See "THE BONDS" herein.

***Continuing Disclosure and Additional Information.*** The City will covenant in the Continuing Disclosure Certificate to provide certain financial information and operating data relating to the City and notices of certain events, if material. The Authority will covenant in the Continuing Disclosure Certificate to provide notices of certain events, if material. Such information and notices will be filed by the Trustee as Dissemination Agent with certain Nationally Recognized Municipal Securities Repositories. For more information concerning continuing disclosure, see "CONTINUING DISCLOSURE" and Appendix F attached hereto.

## **FINANCING PLAN**

A portion of the proceeds of the Bonds will be deposited into the Project Fund established under the Indenture and used to acquire and construct certain public capital improvements of the City.

The sanitary sewer system in the City consists of approximately 80 miles of gravity sanitary sewers and force mains and 12 pump stations. The service area of the sewer system consists of approximately 2,350 acres, serving an estimated population of about 25,000 persons. Wastewater is transported by gravity and pressure pipelines to the South Bayside System Authority's (the "SBSA") Shoreway Pump Station, where it is pumped to the SBSA treatment plant in Redwood City for treatment and disposal.

The system has approximately 8,512 connections in the City of Belmont, and flows are in the 1.9 million gallon per day range, accounting for approximately 10% of the flows to the SBSA treatment plant.

Improvements that have been recommended for the sanitary sewer system include rehabilitation and improvement of the systems catch basins, cross connections and manholes. Pipeline rehabilitation has also been recommended and is underway in a phased program that is designed to provide betterments to the system gradually, as City resources allow.

The rehabilitation plan starts with an engineering investigation of discrete "basins" within the service area. Presently, the City expects to enter into one investigation contract per year for clusters of 1 to 4 basins. Once investigation data is received, the City develops a specific design and construction program for the cluster or basin. Design and construction follow, generally taking place over a six month to one year period.

In addition to the collection system, the City is in the process of rehabilitating sewer pump stations. Of the 12 pump stations in the City, three have had rehabilitation work completed and three others are in the planning stages.

## **THE BONDS**

The Bonds will be dated their date of delivery and will be payable in the years and amounts and bear interest at the respective rates set forth on the cover page hereof, which interest shall be payable on February 1 and August 1 of each year, commencing February 1, 2002 (each, an "Interest Payment Date"). The Bonds will be delivered only in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Ownership interests in the Bonds may be purchased in book-entry form only in denominations of \$5,000 or any integral multiple thereof. See "Book-Entry Only System" below and Appendix E attached hereto.

In the event the book-entry only system described below is discontinued, each Bond will bear interest from the Interest Payment Date next preceding the date of registration thereof, unless such date of registration is during the period from and including the Record Date next preceding an Interest Payment Date to and including such Interest Payment Date, in which event it will bear interest from such Interest Payment Date, or unless such date of registration is on or before the Record Date next preceding the first Interest Payment Date, in which event it shall bear interest from the delivery date of the Bonds; *provided*, that if at the time of registration of any Bond interest is then in default on the Outstanding Bonds, such Bond will bear interest from the Interest Payment Date to which interest previously has been paid or made available for payment on the Outstanding Bonds. Payment of interest on the Bonds due on or before the maturity or prior redemption of the Bonds will be made to the person whose name appears in the registration books



maintained under the Indenture as the Owner thereof as of the close of business on the Record Date next preceding each Interest Payment Date, such interest to be paid by check mailed by first class mail, postage prepaid, on each Interest Payment Date to such Owner at his address as it appears in the registration books maintained under the Indenture, or, upon written request received prior to the Record Date next preceding an Interest Payment Date of an Owner of at least one million dollars (\$1,000,000) in aggregate principal amount of Bonds, by wire transfer in immediately available funds to an account within the continental United States of America designated by such Owner.

### **Book-Entry Only System**

One fully-registered Bond will be issued for each maturity of the Bonds in the principal amount of the Bonds of such maturity. It will be registered in the name of Cede & Co. and will be deposited with DTC. The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered and will be governed by the provisions of the Indenture with respect to payment of principal and interest and rights of exchange and transfer.

There can be no assurance that DTC participants or others will distribute payments with respect to the Bonds received by DTC or its nominee as the registered Owner, or any prepayment or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or that DTC will service and act in the manner described in this Official Statement. See Appendix E hereto for additional information concerning DTC.

### **Transfers and Exchanges Upon Termination of Book-Entry Only System**

In the event the book-entry system described above is abandoned, Bonds will be printed and delivered. Thereafter, any Bond may, in accordance with its terms, be transferred upon the books required to be kept pursuant to the Indenture by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation at the Corporate Trust Office of the Trustee accompanied by delivery of a duly executed written instrument of transfer. Whenever any Bond or Bonds will be surrendered for transfer, the Authority will execute and the Trustee will authenticate and deliver a new Bond or Bonds for a like aggregate principal amount and maturity date. The Trustee will require the payment by the Owner requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer.

The Trustee will not be required to register the transfer of (i) any Bond during the fifteen (15) day period preceding any date established by the Trustee for selection of Bonds for redemption, (ii) any Bonds which have been selected for redemption (except for any unredeemed portion of any of such Bonds) or (iii) any Bonds during the period from any Record Date to any Interest Payment Date.

The Bonds may be exchanged at the Corporate Trust Office of the Trustee for a like aggregate principal amount of Bonds of the same maturity of other authorized denominations. The Trustee will require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange. No such exchange will be made (i) during the fifteen (15) days preceding any date established by the Trustee for selection of Bonds for redemption, (ii) of any Bonds which have been selected for redemption (except for any unredeemed portion of any of such Bonds) or (iii) any Bonds during the period from any Record Date to any Interest Payment Date.

## Sinking Fund Redemption

Sinking Fund Installments are established under the Indenture for the mandatory redemption and payment of the Term Bonds maturing on August 1, 2023, which payments will become due during the years ending on the dates and in the amounts set forth in the following schedule (except that if any Term Bonds have been optionally redeemed as described below the amounts of such Sinking Fund Installments will be reduced by the principal amount of all such Term Bonds so optionally redeemed).

### Term Bonds Due August 1, 2023

<u>Date</u> <u>(August 1)</u>	<u>Sinking Fund</u> <u>Installment</u>
2021	\$280,000
2022	295,000
2023 <sup>(1)</sup>	<u>310,000</u>
Total	<u>\$885,000</u>

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<sup>(1)</sup> Final Maturity.

Sinking Fund Installments are established under the Indenture for the mandatory redemption and payment of the Term Bonds maturing on August 1, 2031, which payments will become due during the years ending on the dates and in the amounts set forth in the following schedule (except that if any Term Bonds have been optionally redeemed as described below the amounts of such Sinking Fund Installments will be reduced by the principal amount of all such Term Bonds so optionally redeemed).

### Term Bonds Due August 1, 2031

<u>Date</u> <u>(August 1)</u>	<u>Sinking Fund</u> <u>Installment</u>
2026	355,000
2027	375,000
2028	395,000
2029	415,000
2030	435,000
2031 <sup>(1)</sup>	<u>455,000</u>
Total	<u>\$2,430,000</u>

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<sup>(1)</sup> Final Maturity.

## Optional Redemption

The Bonds maturing by their terms on or after August 1, 2009 are subject to optional redemption by the Authority on any date on or after August 1, 2008, prior to their respective stated maturity dates, as a whole or in part in such principal amounts and from such maturity dates as selected by the Authority at the direction of the City, from funds derived by the Authority from any lawful source and deposited with the Trustee not less than five (5) days prior to the date of redemption, upon mailed notice as provided in the Indenture, at a redemption price equal to the principal amount of the Bonds or the portions thereof called for redemption, together with interest accrued thereon to the date fixed for redemption.

## **Redemption Procedures**

Whenever less than all the Outstanding Bonds maturing on any one date are called for redemption at any one time, the Trustee will select the Bonds to be redeemed (from the Outstanding Bonds maturing on such date not previously selected for redemption) by lot in any manner which the Trustee deems fair; provided, that if less than all the Outstanding Term Bonds maturing on any one date are called for redemption from proceeds other than Sinking Fund Installment payments at any one time, the Trustee will calculate a reduction in the Sinking Fund Installment payments required to be made with respect to such Term Bonds (in an amount equal to the amount of Outstanding Term Bonds to be redeemed). Except for Sinking Fund Installment redemptions, the Authority will deposit with the Trustee money sufficient to redeem any Outstanding Bonds not later than five (5) days prior to the redemption date of the Bonds to be redeemed.

In lieu of redemption of any Term Bonds, amounts on deposit in the Sinking Fund allocable to such Term Bonds may be used and withdrawn by the Trustee at any time upon the request of the Authority at the direction of the City for the purchase of such Term Bonds at public or private sale as and when and at such prices as the Authority at the direction of the City may determine. The principal amount of any Term Bonds so purchased by the Trustee will be credited toward and will reduce the principal amount of the Term Bonds required to be redeemed on such Sinking Fund Payment Date.

Notice of redemption of any Bonds or any portions thereof will be mailed by first class mail, postage prepaid, by the Trustee not less than 30 nor more than 60 days prior to the redemption date of such Bonds (i) to the respective Owners of the Bonds designated for redemption at their addresses appearing on the bond registration books kept by the Trustee, (ii) to the Information Services and (iii) to the Securities Depositories. Each notice of redemption will state the date of such notice, the Bonds to be redeemed, the date of issue of such Bonds, the redemption date, the redemption price, whether funds are then on deposit sufficient to pay the redemption price, the place of redemption (including the name and appropriate address), the CUSIP number (if any) of the maturity or maturities, and, if less than all Bonds of any such maturity are to be redeemed, the distinctive numbers of the Bonds of such maturity to be redeemed and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice will also state that on such redemption date there will become due and payable on each of such Bonds the redemption price thereof or of the specified portion of the principal amount thereof in the case of a Bond to be redeemed in part only, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon will cease to accrue, and will require that such Bonds be then surrendered at the Corporate Trust Office of the Trustee specified in the redemption notice as the place of redemption; provided, that failure by the Trustee to give notice to any one or more of the Information Services or Securities Depositories, or the insufficiency of any such notice or the failure of any Owner to receive any redemption notice mailed to such Owner or any immaterial defect in the notice so mailed shall not affect the sufficiency of the proceedings for the redemption of any Bonds.

From and after the date fixed for redemption of any Bonds or any portions thereof, if notice of such redemption will have been duly given and funds available for the payment of such redemption price of the Bonds or such portions thereof so called for redemption will have been duly provided, no additional interest will accrue on such Bonds or such portions thereof from and after the redemption date specified in such notice.

## Debt Service Schedule

The table below shows the annual Installment Payments due from the City and the debt service requirements for the Bonds.

### Schedule of Annual Installment Payments and Debt Service on the Bonds

Annual Period Ending August 1	Principal Installment Payments	Interest	Total
2002	\$85,000	\$220,447.54	\$305,447.54
2003	140,000	353,763.76	493,763.76
2004	145,000	347,638.76	492,638.76
2005	140,000	341,295.00	481,295.00
2006	150,000	335,170.00	485,170.00
2007	160,000	328,607.50	488,607.50
2008	160,000	321,607.50	481,607.50
2009	165,000	314,607.50	479,607.50
2010	170,000	307,388.76	477,388.76
2011	180,000	299,951.26	479,951.26
2012	185,000	292,076.26	477,076.26
2013	195,000	283,982.50	478,982.50
2014	205,000	275,451.26	480,451.26
2015	215,000	266,226.26	481,226.26
2016	225,000	256,551.26	481,551.26
2017	235,000	246,145.00	481,145.00
2018	245,000	234,982.50	479,982.50
2019	250,000	223,345.00	473,345.00
2020	270,000	211,345.00	481,345.00
2021	280,000 <sup>(1)</sup>	198,115.00	478,115.00
2022	295,000 <sup>(1)</sup>	184,395.00	479,395.00
2023	310,000 <sup>(1)</sup>	169,940.00	479,940.00
2024	325,000	154,750.00	479,750.00
2025	340,000	138,500.00	478,500.00
2026	355,000 <sup>(2)</sup>	121,500.00	476,500.00
2027	375,000 <sup>(2)</sup>	103,750.00	478,750.00
2028	395,000 <sup>(2)</sup>	85,000.00	480,000.00
2029	415,000 <sup>(2)</sup>	65,250.00	480,250.00
2030	435,000 <sup>(2)</sup>	44,500.00	479,500.00
2031	455,000 <sup>(2)</sup>	22,750.00	477,750.00
Totals	\$7,500,000	\$6,749,032.62	\$14,249,032.62

<sup>(1)</sup> Represents mandatory sinking fund payments on the Term Bonds due August 1, 2023.

<sup>(2)</sup> Represents mandatory sinking fund payments on the Term Bonds due August 1, 2031.

## SECURITY FOR THE BONDS

### Security under the Indenture

Under the Indenture, the Authority irrevocably transfers and assigns over to the Trustee all of the Installment Payments received by the Authority under the Installment Purchase Agreement and any and all rights it has to enforce the obligations of the City under the Installment Purchase Agreement. The Installment Payments received by the Trustee (the “Revenues”) and in the other funds or accounts are irrevocably pledged by the Authority to the punctual payment of the Bonds. The Revenues and such other funds and accounts are not permitted to be used for any other purpose while any of the Bonds remain Outstanding; subject to the provisions permitting the application thereof for the purposes and on the conditions and terms set forth therein. The Indenture provides that this pledge constitutes a first lien on the Revenues and such other money for the payment of the Bonds in accordance with the terms thereof.

The Indenture establishes a special fund known as the “Revenue Fund” held by the Trustee into which all Installment Payments are deposited. The money in the Revenue Fund is required to be transferred by the Trustee for deposit in the following respective funds (each of which is maintained with the Trustee) at the following times and in the following order of priority:

- (1) Interest Fund;
- (2) Principal Fund;
- (3) Sinking Fund; and
- (4) Reserve Fund.

Interest Fund. The Trustee will transfer for deposit in the Interest Fund at least eight business days prior to each Interest Payment Date, an amount of money from the Revenue Fund which is equal to the aggregate amount of the interest becoming due and payable on all Outstanding Bonds on such Interest Payment Date.

Principal Fund. The Trustee will transfer for deposit in the Principal Fund at least eight business days prior to August 1 of each year, an amount of money from the Revenue Fund which, together with any money contained in the Principal Fund, is equal to the aggregate amount of the principal becoming due and payable on all Outstanding Serial Bonds on such Principal Payment Date.

Sinking Fund. The Trustee will transfer for deposit in the Sinking Fund at least eight business days prior to August 1 of each year as required, an amount of money from the Revenue Fund equal to the Sinking Fund Installments payable on such Sinking Fund Payment Date.

Reserve Fund. In the event of a withdrawal of amounts from the Reserve Fund to make payments to the Interest Fund, Principal Fund or Sinking Fund, the Trustee will deposit in the Revenue Fund money’s necessary to restore the amount in such Reserve Fund to the Reserve Fund Requirement; *provided*, that if there has been a draw upon any policy of insurance, surety bond, letter of credit or other comparable credit facility used to provide all or a portion of the Reserve Fund Requirement, said Installment Payments will be applied to reimburse the provider of such instrument for payments made under such draw plus its expenses in connection therewith.

## **Reserve Fund**

Under the Indenture, the Trustee holds in trust a separate fund designated as the Reserve Fund. The amount on deposit in the Reserve Fund is required to be maintained in an amount at least equal to the Reserve Fund Requirement. The Reserve Fund Requirement is equal to \$493,763.76.

## **Pledge of System Net Revenues Under Installment Purchase Agreement**

The Installment Purchase Agreement provides that all System Net Revenues and all amounts on deposit in the System Revenue Fund are irrevocably pledged to the payment of the Installment Payments and that the System Net Revenues will not be used for any other purpose while any of the Installment Payments remain unpaid. The Installment Purchase Agreement provides that this pledge, together with the pledge created by any other Parity Debt (i.e., the Installment Payments and any other parity obligations of the City), and subject to any permitted prior liens on Revenues, constitutes a lien on System Net Revenues for the payment of the Installment Payments and all other Parity Debt.

In order to carry out and effectuate such pledge the City agrees and covenants that all System Revenues will be deposited when and as received in a special fund designated as the "System Revenue Fund", which fund the City agrees and covenants to maintain and to hold separate and apart from other funds so long as any Installment Payments remain unpaid. The City is required, from the moneys in the System Revenue Fund, to pay all Operation and Maintenance Costs (including amounts reasonably required to be set aside in contingency reserves for Operation and Maintenance Costs, the payment of which is not then immediately required) as such Operation and Maintenance Costs become due and payable. Thereafter, all remaining moneys in the System Revenue Fund are required to be set aside by the City at the following times for the transfer to the following respective special funds in the following order of priority.

Installment Payments. Not later than each Installment Payment Date (*i.e.*, January 15 and July 15 of each year), the City is required to, from the moneys in the System Revenue Fund, to transfer to the Trustee the Installment Payment due and payable on that Installment Payment Date. The City will also, from the moneys in the System Revenue Fund, transfer to the applicable trustee for deposit in the respective payment fund, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, any other Parity Obligation Payments in accordance with the provisions of any Parity Obligation.

Reserve Fund. On or before the first Business Day of each month, the City is required to, from the remaining moneys in the System Revenue Fund, thereafter, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, to transfer to the Trustee for deposit in the Revenue Fund for application to the Reserve Fund in accordance with the Indenture and to the applicable trustee for such other Reserve Funds, if any, as may have been established in connection with Parity Obligations that sum, if any, necessary to restore the Reserve Fund to an amount equal to the Reserve Fund Requirement and otherwise replenish the Reserve Fund for any withdrawals to pay the Installment Payments due under the Installment Purchase Agreement and necessary to restore such other reserve accounts to an amount equal to the amount required to be maintained therein; provided that payments to restore the Reserve Fund after a withdrawal will be in an amount equal to 1/12 of the aggregate amount needed to restore the Reserve Fund to the Reserve Fund Requirement as of the date of the withdrawal.

Surplus. Moneys on deposit in the System Revenue Fund not necessary to make any of the payments required above, may be expended by the City at any time for any purpose permitted by law, including but not limited to payments with respect to Subordinate Obligations and deposits to the Rate Stabilization Fund.

### **Additional Debt Tests Under Installment Purchase Agreement**

Pursuant to the Installment Purchase Agreement, the City may at any time issue any Parity Debt payable from System Net Revenues of the City on a parity with the Installment Purchase Agreement; provided (among other things):

(1) the System Net Revenues as shown by the books of the City for the 12 calendar months ending prior to the incurring of such additional obligations shall have amounted to at least the sum of (x) 100% of Annual Debt Service for such 12 calendar month period, plus (y) the amount by which the amount on deposit on the Rate Stabilization Fund on the date prior to the first day of such 12 calendar month period was less than 25% of Maximum Annual Debt Service;

(2) the estimated System Net Revenues for the 12 calendar months following the date of incurring such additional obligations will be at least equal to 100% of Maximum Annual Debt Service on all City Parity Debt to be outstanding immediately after the incurring of such additional obligations; and

(3) the amount on deposit in the Rate Stabilization Fund on the date of incurring such additional obligations is at least equal to 25% of Maximum Annual Debt Service as of the date of incurring of such additional obligations.

For purposes of the computations to be made as described in clause (2), the determination of the System Net Revenues: (i) may take into account any increases in rates and charges which relate to the Sewer System and shall take into account any reduction in such rates and charges, which will be effective prior to or at the time of incurring such proposed additional obligations; (ii) may take into account an allowance for any estimated increase in such System Net Revenues from any revenue producing additions to or improvements or extensions of the Sewer System to be made with the proceeds of such additional obligations or with the proceeds of obligations previously issued, as shown by a certificate of an Independent Financial Consultant; and (iii) for the period contemplated by clause (2), Operation and Maintenance Costs of the Sewer System shall be deemed to be the same as for the period for which a calculation is done pursuant to clause (1), but adjusted, if deemed necessary by the Independent Financial Consultant, for any increased Operation and Maintenance Costs of the Sewer System which are, in the judgment of the Independent Financial Consultant, essential to maintaining and operating the Sewer System.

Notwithstanding the foregoing, Parity Debt issued to refund outstanding Bonds may be delivered without satisfying the conditions set forth above if Debt Service in each fiscal year after the fiscal year in which such Parity Debt issued is not greater than Debt Service would have been in each such fiscal year prior to the issuance of such Parity Debt.

### **Rate Covenant Under the Installment Purchase Agreement**

Each Installment Purchase Agreement provides that the related City will fix, prescribe and collect rates, fees and charges and manage the operation of the System for each Fiscal Year so as to yield System Revenues at least sufficient, after making reasonable allowances for contingencies and errors in the estimates, to pay the following amounts during such Fiscal Year:

(i) All current Operation and Maintenance Costs.

(ii) The Installment Payments and payments for other Parity Debt and the payment of the Subordinate Obligations as they become due and payable.

(iii) All payments required for compliance with the terms of the Installment Purchase Agreement, including restoration of the Reserve Fund to an amount equal to the Reserve Fund Requirement, and of any Supplemental Agreement.

(iv) All payments to meet any other obligations of the City which are charges, liens or encumbrances upon, or payable from, the System Net Revenues.

In addition, the City has covenanted in the Installment Purchase Agreement that it will, to the maximum extent permitted by law, fix, prescribe and collect rates and charges for the Sewer Service which will be at least sufficient to yield during each fiscal year System Net Revenues equal to 100% of the Debt Service payable in such fiscal year, plus the amount by which the amount on deposit in the Rate Stabilization Fund on the last day of the immediately preceding fiscal year was less than 25% of Maximum Annual Debt Service as of such day. The City may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates and charges then in effect unless the System Net Revenues from such reduced rates and charges will at all times be sufficient to meet the requirements of the rate covenant. See the caption "THE SEWER SYSTEM -- Charges and Billing" herein for a further discussion of the City's ability to establish and charge rates and "CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES -- Proposition 218" herein.

#### **Rate Stabilization Fund Under the Installment Purchase Agreement**

There is a special fund designated as the "Rate Stabilization Fund" to be held by the City, which fund the City agrees and covenants under the Installment Purchase Agreement to hold separate and apart from other funds so long as any moneys remain on deposit in such Fund. The Rate Stabilization Fund is required to be funded in an amount equal to 25% of Maximum Annual Debt Service. The City may, during or within 210 days after a Fiscal Year, deposit Net System Revenues attributable to such Fiscal Year (on the basis of Generally Accepted Accounting Principles) into the Rate Stabilization Fund. Money transferred by the City from the Revenue Fund to the Rate Stabilization Fund shall be held in the Rate Stabilization Fund and applied in accordance with the Installment Purchase Agreement. The City may withdraw all or any portion of the amounts on deposit in the Rate Stabilization Fund and (i) transfer such amounts to the Revenue Fund for application in accordance with the Installment Purchase Agreement or (ii) expend such amounts for any purpose permitted by law.

### **BOND INSURANCE**

Set forth below is a brief summary of certain information concerning the Insurer and the terms of the Insurance Policy. Information with respect to the Insurer has been supplied to the Authority by the Insurer. The following discussion does not purport to be complete and is qualified in its entirety by reference to the Insurance Policy.

#### **The Insurance Policy**

The following information has been furnished by MBIA Insurance Corporation (the "Insurer") for use in this Official Statement. Reference is made to Appendix G for a specimen of the Insurer's policy.

The Insurer's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the City to the Trustee or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment)



and interest on, the Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional prepayments or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the Insurer's policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

The Insurer's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bonds. The Insurer's policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory prepayments (other than mandatory sinking fund prepayments); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The Insurer's policy also does not insure against nonpayment of principal of or interest on the Bonds resulting from the insolvency, negligence or any other act or omission of the Trustee or any other paying agent for the Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Trustee or any owner of a Bonds the payment of an insured amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Bonds or presentment of such other proof of ownership of the Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Bonds as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Bonds in any legal proceeding related to payment of insured amounts on the Bonds, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners or the Trustee payment of the insured amounts due on such Bonds, less any amount held by the Trustee for the payment of such insured amounts and legally available therefor.

## **The Insurer**

The Insurer is the principal operating subsidiary of the Insurer Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against the Insurer. The Insurer is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. The Insurer has three branches: one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by the Insurer, changes in control and transactions among affiliates. Additionally, the Insurer is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

The Insurer does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the

accuracy of the information regarding the policy and the Insurer set forth under the heading “BOND INSURANCE”. Additionally, the Insurer makes no representation regarding the Bonds or the advisability of investing in the Bonds.

The Financial Guarantee Insurance Policies are not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

### **The Insurer Information**

The following documents filed by the Company with the Securities and Exchange Commission (the “SEC”) are incorporated herein by reference:

- (1) The Company’s Annual Report on Form 10-K for the year ended December 31, 2000;
- (2) The Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2001; and
- (3) The report on Form 8-K filed by the Company on January 30, 2001.

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of this Official Statement and prior to the termination of the offering of the Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company’s Annual Report on Form 10-K for the year ended December 31, 2000, (2) the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2001 and (3) the report on Form 8-K filed by the Company on January 30, 2001) are available (i) over the Internet at the SEC’s web site at <http://www.sec.gov>; (ii) at the SEC’s public reference room in Washington D.C.; (iii) over the Internet at the Company’s web site at <http://www.mbia.com>; and (iv) at no cost, upon request to the Insurer Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of the Insurer is (914) 273-4545.

As of December 31, 2000, the Insurer had admitted assets of \$7.6 billion (audited), total liabilities of \$5.2 billion (audited), and total capital and surplus of \$2.4 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of June 30, 2001, the Insurer had admitted assets of \$8.1 billion (unaudited), total liabilities of \$5.8 billion (unaudited), and total capital and surplus of \$2.3 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

### **Financial Strength Ratings of the Insurer**

Moody's Investors Service, Inc. rates the financial strength of the Insurer “Aaa.”

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. rates the financial strength of the Insurer “AAA.”

Fitch, Inc. rates the financial strength of the Insurer “AAA.”

Each rating of the Insurer should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of the Insurer and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Bonds. The Insurer does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

### **ESTIMATED SOURCES AND USES OF FUNDS**

The following table sets forth the estimated sources and uses of funds relating to the Bonds.

Sources:

Principal Amount of Bonds	\$7,500,000.00
Less Underwriter's Discount	(139,146.20)
Plus Net Original Issuance Premium	<u>64,146.20</u>
Total Sources	\$7,425,000.00

Uses:

Project Fund	\$6,791,236.24
Reserve Fund	493,763.76
Costs of Issuance Fund <sup>(1)</sup>	<u>140,000.00</u>
Total Uses	\$7,425,000.00

<sup>(1)</sup> Includes certain legal, financing and printing costs.

### **THE SEWER SYSTEM**

#### **General**

The sewer system consists of the City's sanitary sewer collection, treatment and disposal system. The sewer system provides collection, treatment and disposal of all residential, commercial and light industrial sewage in the City service area. The sewer system facilities include over 84 miles of sewer lines, and 9 sewer lift stations. This function is operational 24 hours a day, seven days a week. The City participates in a joint powers agency called South Bayside System Authority, a joint powers authority, which has a wastewater treatment plant which became operational in 1981 with funding from local sources and Federal and State Clean Water Grant monies. The plant was expanded in 2001.

## Service Area and Customers

The City's sewer system serves an area of approximately 4.3 square miles in the City.

The City is the sole and exclusive provider of sewer service within the corporate limits of the City, which has a population estimated to be 25,450 as of January 1, 2001. The tables below show the number of connections to the sewer system from 1997 to 2001 and the revenues of the sewer system categorized by user type as of June 30, 2001.

### Sewer Service User Base As of July 1, 1997 to 2001

<u>User Type</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
All Users	8,200	8,200	9,038 <sup>(1)</sup>	8,611 <sup>(2)</sup>	8,512 <sup>(3)</sup>

<sup>(1)</sup> Increase due to a change in billing procedures to include all parcels, developed or undeveloped.

<sup>(2)</sup> Decline due to a change from a flat rate to a metered rate system.

<sup>(3)</sup> Decline due to adjustment of consolidated parcels.

Source: City of Belmont.

### Sewer Service Revenues by User Type As of June 30, 2001

<u>User Type</u>	<u>Revenue</u>	<u>Percent</u>
Single Family & Multiple Family Residential	\$2,610,990.06	81%
Commercial/Institutional	<u>601,613.06</u>	<u>19%</u>
Total Revenue	\$3,212,603.12	100%

Source: City of Belmont.

***Largest Sewer Users.*** The ten largest users of the City’s sewer system are listed in the table below.

**Ten Largest Users of the Sewer System  
As of June 30, 2001**

<u><b>User</b></u>	<u><b>Type</b></u>	<u><b>Fiscal Year 2000-01 Revenues</b></u>
Motel 6	Commercial	\$46,062.49
400 Davey Glen Road	Multifamily Residential	40,642.61
Panos Gus P	Multifamily Residential	24,230.61
McLellan Estate Co. (Old Country Rd.)	Multifamily Residential	23,556.26
Summerfield Suites	Commercial	23,123.20
McLellan Estate Co. (510 Crestview Ave.)	Multifamily Residential	21,797.60
T & S Realty	Multifamily Residential	17,731.91
Carlmont Convalescent Homes, Inc.	Commercial	16,730.24
Beck Klaus, Valverde-Beck Janet	Multifamily Residential	16,720.15
Normandy Square Associates LLC	Multifamily Residential	15,342.23

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Source: City of Belmont.

**Charges and Billing**

***Current Rates.*** The following table summarizes the monthly sewer rates in effect for the City. These rates have been in effect since July 1, 2001. For information concerning Proposition 218 which may affect the City’s ability to impose sewer fees and charges, see “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES - Proposition 218” herein.

**Monthly Sewer Rates and Charges  
for Domestic and Commercial Users<sup>(1)</sup>**

<u>Classification</u>	<u>Monthly Fee Per Unit</u>	<u>Minimum Annual Charge<sup>(1)</sup></u>
<b>Low strength:</b>		
Residential - including, but not limited to: Single family dwelling, Duplex and multiple family dwellings apartments (per unit) and flats	\$2.70	\$137.04
Retail/Commercial - including but not limited to: Motels/Hotels, Commercial houses, Office buildings, Car washes, Laundromats, Restaurant (with food prepared off the premises), and Food markets prepared off the premises)	\$2.70	\$491.41
Institutional/Public Authorities - including, but not limited to: Nursing homes, Retirement homes, Sanitariums, Government institutions, and Schools	\$2.70	\$3,364.71
Industrial (with permitted pretreatment facilities)	\$2.70	\$2,342.52
<b>High strength:</b>		
Restaurants (foods prepared on premise)	\$4.60	\$1,765.46
Supermarkets (with grinders)	\$4.60	\$4,109.85

(1) Minimum annual charge is equal to the monthly fee per unit multiplied by the minimum monthly units times 12 months.

Source: City of Belmont.

**Connection Fees.** The City charges a connection fee for new connections to the City's sewer system. The connection fees adopted on July 1, 2001 are \$1,750 per home or unit for residential customers and not less than \$1,750 for commercial and industrial customers where the calculated flow to the sanitary sewer system is less than 270 gallons per day, per connection. If the calculated flow is greater than 270 gallons per day, per connection, then the connection fee will be \$1,750 plus \$4.88 times the gallons per day to be discharged in excess of 270 gallons per day. No person or corporation is permitted to make any connection with any part of the public sewers without the written permit of the City. The cost of connecting into a public sewer within the City shall, until further changed by the City, be collectible at that time in which the building permit is obtained. The cost of resurfacing and/or repairing the city streets in connection therewith, and in addition thereto the damage done, if any, to the public sewer system, will be in addition to the connection fee. The connection fees are established from time to time by resolution adopted by the City to provide an adequate level of finances to expand capacity of the existing sewage plant.

**Connection fees are not included in System Revenues and are not therefor pledged to the payment of Installment Payments.**

***Rate Setting and Collections.*** Pursuant to City Ordinance, there is levied and assessed upon each premises having any sewer connection with the sewerage system of the City or otherwise discharging sewage which ultimately passes through the City sewerage system, a service charge. Rates and charges for sewer service are fixed, from time to time, by resolution of the City Council. Sewer charges for the prior year are collected on the next year's property tax billed and are paid in two installments due on November 1 and March 1.

## **Teeter Plan**

The Board of Supervisors of San Mateo County has approved the implementation of the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"), as provided for in Section 4701 et seq. of the California Revenue and Taxation Code. Under the Teeter Plan, the County apportions secured property taxes on an accrual basis when due (irrespective of actual collections) to its local political subdivisions, including the City, for which the County acts as the tax-levying or collecting agency. The Teeter Plan was effective as of July 1, 1993.

The Teeter Plan is applicable to all tax levies for which the County acts as the tax-levying or collecting agency, or for which the County treasury is the legal depository of the collections. As adopted by the County, the Teeter Plan excludes Mello-Roos Community Facilities Districts and special assessment districts which provide for accelerated judicial foreclosure of property for which assessments are delinquent.

The sewer fees which comprise the Revenues are subject to the Teeter Plan. The City will receive 100% of the sewer fees billed irrespective of actual delinquencies in the collection of the fees by the County.

The Teeter Plan is to remain in effect unless the Board of Supervisors of the County orders its discontinuance or unless, prior to the commencement of any fiscal year of the County (which commences on July 1), the Board of Supervisors receives a petition for its discontinuance joined in by a resolution adopted by at least two-thirds of the participating revenue districts in the County, in which event the Board of Supervisors is to order discontinuance of the Teeter Plan subsequent to its implementation, only those secured property taxes and fees actually collected would be allocated to political subdivisions (including the City) for which the County acts as the tax-levying or collecting agency.

## **Historical Financial Results**

The following tables set forth certain financial results of the Sewer System for Fiscal Years 1995-96 through 1999-2000. The financial information is derived from the audited financial statements of the City for such years. The audited financial statements of the City for the fiscal year 1999-2000 are attached hereto as Appendix A and should be read in their entirety.

**Sewer System  
Summary Statement of Historical  
Revenues and Expenditures  
Fiscal Years 1995-96 through 1999-2000**

	<b><u>Fiscal Year 1995-96</u></b>	<b><u>Fiscal Year 1996-97</u></b>	<b><u>Fiscal Year 1997-98</u></b>	<b><u>Fiscal Year 1998-99</u></b>	<b><u>Fiscal Year 1999-00</u></b>
REVENUES:					
Charges for services	\$2,279,115	\$2,835,691	\$2,889,420	\$2,807,915	\$2,990,564
Connection charges	39,842	140,144	29,750	149,014	71,064
Miscellaneous charges	25,707	3,563	- -	- -	44,737
Interest revenue	125,516	94,959	93,688	64,212	33,886
Joint venture interest	<u>356,490</u>	<u>(119,311)</u>	<u>(135,037)</u>	<u>(123,047)</u>	<u>(197,366)</u>
Total Revenues	2,826,670	2,955,046	2,877,821	2,898,094	2,942,885
EXPENSES:					
Personnel services	486,424	439,273	593,901	666,413	633,717
Sewer treatment services	910,750	821,884	801,852	830,009	943,378
Supplies, materials and services	<u>724,253</u>	<u>791,488</u>	<u>1,049,147</u>	<u>1,297,809</u>	<u>1,329,640</u>
Total Expenses	2,121,427	2,052,645	2,444,900	2,794,231	2,906,735
Total Operating Transfers <sup>(1)</sup>	<u>(400,000)</u>	<u>- -</u>	<u>- -</u>	<u>(137,700)</u>	<u>(204,992)</u>
AMOUNTS AVAILABLE FOR DEBT SERVICE	<u>\$305,243</u>	<u>\$902,401</u>	<u>\$432,921</u>	<u>\$(33,837)</u>	<u>\$(168,842)</u>

<sup>(1)</sup> Includes transfers for storm drain improvements that mitigate infiltration and intrusion into the sewage system.

Source: City of Belmont.

### **Long-Term Obligations**

Other than the Installment Payments, the City will have no other long-term obligations payable from System Revenues after the issuance of the Bonds. The City anticipates issuing Parity Debt in the approximate amount of \$7,500,000 in 2004 to finish the improvements to the Sewer System. See SECURITY FOR THE BONDS - Additional Debt Tests Under Installment Purchase Agreement” and “FINANCING PLAN” herein.

### **Projected Operating Results and Debt Service Coverage**

Set forth below are the City’s projected operating results for the Sewer System for the six-year period ending June 30, 2006, and projected debt service coverage calculated in accordance with the terms of the rate covenant under the Installment Sale Agreement. See “SECURITY FOR THE BONDS -- Rate Covenant Under the Installment Purchase Agreement” herein. Certain of the assumptions upon which these projections are based are set forth in the footnotes to the following table. Although the City believes that the assumptions upon which the projections are based are reasonable, no assurances can be made that the projected results will be realized. Factors which could cause actual results to vary significantly from the projected results include, but are not limited to, substantial variances in actual events from the assumptions, the occurrence of one or more of the events described under “RISK FACTORS” herein or the occurrence of events not presently anticipated by the City.



**City of Belmont**  
**Schedule of Estimated, Budgeted & Projected**  
**Revenues and Expenses**  
**Fiscal Years 2000-01 through 2005-06**

	<b>Estimated</b>	<b>Budgeted</b>	<b>Projected</b>			
	<b>Fiscal Year</b>	<b>Fiscal Year</b>	<b>Fiscal Year</b>	<b>Fiscal Year</b>	<b>Fiscal Year</b>	<b>Fiscal Year</b>
	<b><u>2000-01<sup>(1)</sup></u></b>	<b><u>2001-02<sup>(1)</sup></u></b>	<b><u>2002-03<sup>(2)</sup></u></b>	<b><u>2003-04<sup>(2)</sup></u></b>	<b><u>2004-05<sup>(3)</sup></u></b>	<b><u>2005-06<sup>(3)</sup></u></b>
Sewer Service Charges (Fund 501)	\$3,026,857	\$3,178,200	\$3,368,892	\$3,571,026	\$3,820,997	\$4,008,467
(rate of change, year over year)	1.2%	5.0%	6.0%	6.0%	7.0%	7.0%
Operations & Maintenance	2,727,342	2,787,794	2,899,306	3,015,278	3,135,889	3,261,325
Expenditures (Fund 501)						
(rate of change, year over year)	-2.7%	2.2%	4.0%	4.0%	4.0%	4.0%
System Net Revenues	299,515	390,406	469,586	555,748	685,108	827,142
Debt Service Sewer Revenue		(41,706)	(440,623)	(490,701)	(489,467)	(478,233)
Bonds Series 2001						
Surplus, after debt service	<u>\$299,515</u>	<u>\$348,700</u>	<u>\$28,963</u>	<u>\$65,046</u>	<u>\$195,641</u>	<u>\$348,910</u>
Debt Service Coverage Ratio	N/A	936%	107%	113%	140%	173%
(Annual Basis) <sup>(4)</sup>						

**Notes:**

(1) Information from Belmont Fiscal Year 2001-02 Budget.

(2) Projected Sewer Service Charges include an annual 6% rate increase; O&M Expenditures include 4% increase per year.

(3) Projected Sewer Service Charges include an annual 7% rate increase; O&M Expenditures include 4% increase per year.

(4) Not including amounts on deposit in the Rate Stabilization Fund.

Source: Compiled by Fieldman, Rolapp & Associates from City of Belmont Fiscal Year 2001-02 Budget Data.

**CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES**

**Article XIII B**

Article XIII B of the California State Constitution limits the annual appropriations of the State and of any city, county, school district, authority or other political subdivision of the State to the level of appropriations of the particular governmental entity for the prior fiscal year, as adjusted for changes in the cost of living and population. The “base year” for establishing such appropriation limit is the 1978/79 fiscal year and the limit is to be adjusted annually to reflect changes in population and consumer prices. Adjustments in the appropriations limit of an entity may also be made if (i) the financial responsibility for a service is transferred to another public entity or to a private entity, (ii) the financial source for the provision of services is transferred from taxes to other revenues, or (iii) the voters of the entity approve a change in the limit for a period of time not to exceed four years.

Appropriations subject to Article XIII B generally include the proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions and refunds of taxes. “Proceeds of taxes” include, but are not limited to, all tax revenues and the proceeds to an entity of government from (i) regulatory licenses, user charges, and user fees (but only to the extent such proceeds exceed the cost of providing the service or regulation), and (ii) the investment of tax revenues. Article XIII B includes a requirement that if an entity’s revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

Certain expenditures are excluded from the appropriations limit including payments of indebtedness existing or legally authorized as of January 1, 1979, or of bonded indebtedness thereafter approved by the voters and payments required to comply with court or federal mandates which without discretion require an expenditure for additional services or which unavoidably make the providing of existing services more costly.

The City is of the opinion that their service charges do not exceed the costs they reasonably bear in providing such services and therefore are not subject to the limits of Article XIIB.

### **Proposition 218**

An initiative measure entitled the “Right to Vote on Taxes Act” (“Proposition 218”) was approved by the voters of the State of California at the November 5, 1996 general election. The Proposition 218 added Articles XIIC and Article XIID to the California Constitution.

Proposition 218 defines the terms “fee” and “charge” to mean “any levy other than an ad valorem tax, a special tax or an assessment, imposed by an agency upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property-related service.” A “property-related service” is defined as “a public service having a direct relationship to property ownership.” The City cannot predict whether Proposition 218 will be construed as applying to their fees or charges.

Proposition 218 requires that any agency imposing or increasing any property-related fee or charge must provide written notice thereof to the record owner of each identified parcel upon which such fee or charge is to be imposed and must conduct a public hearing with respect thereto. The proposed fee or charge may not be imposed or increased if a majority of owners of the identified parcels file written protests against it. As a result, if and to the extent that a fee or charge imposed by the City is ultimately determined to be a “fee” or “charge” as defined in Proposition 218, the City’s ability to increase such fee or charge may be limited by a majority protest.

In addition, Proposition 218 includes a number of limitations applicable to existing fees and charges including provisions to the effect that (i) revenues derived from the fee or charge shall not exceed the funds required to provide the property-related service, (ii) such revenues shall not be used for any purpose other than that for which the fee or charge was imposed, (iii) the amount of a fee or charge imposed upon any parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to the parcel and (iv) no such fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Property-related fees or charges based on potential or future use of a service are not permitted. The City believes that their current fees and charges comply with these limitations.

Proposition 218 provides that stand-by charges, whether characterized as charges or assessments, are classified as assessments and cannot be imposed without compliance with the provisions of Proposition 218 pertaining assessments.

Under the Installment Purchase Agreement, the City has covenanted, to the maximum extent permitted by law, to establish and collect sufficient rates and charges to comply with the rate covenants thereunder. See “SECURITY FOR THE BONDS - Rate Covenant Under the Installment Purchase Agreement” herein.

Article XIIC provides that the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge and that the power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments. Article XIIC does not define the terms “local tax,” “assessment,” “fee” or “charge,” so it is unclear that the definitions set forth in Article XIID referred to above will be applicable to Article XIIC. Moreover, the provisions of Article XIIC are not expressly limited to local taxes, assessments, fees and charges imposed after November 6, 1996. Therefore, in the absence of other limitations, provisions of Article XIIC could be applicable to the rates charged by the City. The City does not believe that Article XIIC grants to the voters the power to repeal or reduce rates and charges in a manner which would be inconsistent with the City’s contractual obligations, including but not limited to, the obligation to pay Installment Payments. There can be no assurance of the availability of particular remedies adequate to protect the interests of Bond Owners. Remedies available to Bond Owners in the event of a default are dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time-consuming to obtain.

### **Future Initiatives**

Articles XIIB, XIIC and XIID were adopted as measures that qualified for the ballot pursuant to California’s initiative process. From time to time other initiatives could be proposed and adopted affecting the City’s revenues or ability to increase revenues.

## **RISK FACTORS**

The following section describes certain risk factors affecting the payment of and security for the Bonds. The following discussion of risks is not meant to be an exhaustive list of the risks associated with the purchase of the Bonds and does not necessarily reflect the relative importance of the various issues. Potential investors are advised to consider the following factors, along with all other information in this Official Statement, in evaluating the Bonds. There can be no assurance that other risk factors will not become material in the future.

### **General**

The payment of principal of and interest on the Bonds is secured solely by a pledge of the Revenues and certain funds under the Indenture. Revenues consist of Installment Payments to be made by the City. The obligation of the City to make Installment Payments is secured by the System Net Revenues. No assurance can be made that System Net Revenues, estimated or otherwise, will be realized in an amount sufficient to pay the Installment Payments of the City. The realization of future System Net Revenues is subject to, among other things, the capabilities of management of the City, the ability of the City to provide services to its users, and the ability of the City to establish and maintain charges sufficient to provide the required debt service coverage as well as pay for Operation and Maintenance Costs.

Among other matters, drought, general and local economic conditions and changes in law and government regulations (including initiatives and moratoriums on growth) could adversely affect the amount of System Revenues realized by the City and ultimately the ability of the City to pay the Installment Payments.

The operations of the water or sewer systems of the City depend upon a reliable energy supply. The price and availability of energy in California has been subject to significant fluctuations thus far in calendar 2001. Increased costs for power will increase the operation and maintenance costs of the City.

## **Earthquakes, Floods and Other Natural Disasters**

Earthquakes, floods or other natural disasters could interrupt operation of the Sewer System of the City and cause increased costs and thereby interrupt the ability of the City to realize System Net Revenues sufficient to pay the Installment Payments. The City is not obligated under the Installment Purchase Agreement to have earthquake or flood insurance.

## **Investment of Funds**

All funds and accounts held under the Indenture are required to be invested in Authorized Investments as provided under the Indenture. See Appendix C attached hereto for a summary of the definition of Authorized Investments. All investments, including the Authorized Investments and those authorized by law from time to time for investments by public agencies contain a certain degree of risk. Such risks include, but are not limited to, a lower rate of return than expected, loss of market value and loss or delayed receipt of principal. The occurrence of these events with respect to amounts held under the Indenture or by the City could have a material adverse effect on the security of the Bonds.

## **Limitations on Remedies and Bankruptcy**

The rights and remedies provided in the Indenture and the Installment Purchase Agreement may be limited by and are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, and to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California. The various opinions of counsel to be delivered with respect to such documents, including the opinion of Bond Counsel (the form of which is attached as Appendix D), will be similarly qualified.

The enforcement of the remedies provided in the Installment Purchase Agreement and the Indenture could prove both expensive and time consuming. In the event of a default, the Trustee is not empowered to sell the Project in order to pay debt service on the Bonds. In addition, the rights and remedies provided in the Installment Purchase Agreement and Indenture may be limited by and are subject to provisions of the federal bankruptcy laws, as now or hereafter enacted, and to other laws or equitable principles that may affect creditors' rights. If the City were to file a petition under Chapter 9 of the Bankruptcy Code (Title 11, United States Code), the Bondholders and the Trustee could be prohibited or severely restricted from taking any steps to enforce its rights under the Installment Purchase Agreement and from taking any steps to collect amounts due from the City under the Installment Purchase Agreement.

## **THE AUTHORITY**

The Belmont Joint Powers Financing Authority (the "Authority") is a joint exercise of powers authority duly organized and operating pursuant to Article 1 (commencing with Section 6500) of Chapter 5, Division 7, Title 1 of the California Government Code, and pursuant to an agreement which became dated as of August 1, 1992, by and between the City and the Belmont Redevelopment Agency.

**Neither the faith and credit nor the taxing power of the State of California or any public agency thereof or the Authority or any member of the Authority is pledged to the payment of the Bonds. The Bonds do not constitute a debt, liability or obligation of the State of California or any public agency thereof (other than the Authority payable solely from the Revenues) or any member of**

**the Authority, and neither the directors of the Authority nor any persons executing the Bonds are liable personally on the Bonds by reason of their issuance. The Authority has no taxing power.**

## **LEGAL MATTERS**

The legality and enforceability of the Bonds are subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, acting as Bond Counsel. The form of such legal opinion is attached hereto as Appendix D. Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, will also serve as Disclosure Counsel. Certain legal matters will be passed upon by the counsel to the Authority. The payment of fees of Bond Counsel is contingent upon the closing of the financing.

## **LITIGATION**

The Authority will certify to the effect that, to the best knowledge of the Authority, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body pending other than as described in the Official Statement (i) in any way questioning the existence of the Authority or the titles of the officers of the Authority to their respective offices; (ii) affecting, contesting or seeking to prohibit, restrain or enjoin the issuance or delivery of any of the Bonds, or the payment or collection of any amounts pledged or to be pledged to pay the principal of and interest on the Bonds, or in any way contesting or affecting the validity of the Bonds or the related legal documents or the consummation of the transactions contemplated thereby, or contesting the exclusion of the interest on the Bonds from taxation or contesting the powers of the Authority to assign and pledge the Installment Payments; or (iii) contesting the completeness or accuracy of the Preliminary Official Statement (excluding all appendices) or the Official Statement (excluding all appendices) or any supplement or amendment thereto or asserting that the Preliminary Official Statement (excluding all appendices) or the Official Statement (excluding all appendices) contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

The City will certify to the effect that, other than as described in the Official Statement, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body pending or, to the best knowledge of the City, threatened (i) in any way questioning the existence of the City or the titles of the officers of the City to their respective offices; (ii) in any way contesting or affecting the validity of the legal documents relating to the Bonds entered into by the City or the consummation of the transactions contemplated thereby, (iii) which may result in any material adverse change relating to the finances or operations of the City; or (iv) contesting the completeness or accuracy of the Preliminary Official Statement or the Official Statement or any supplement or amendment thereto or asserting that the Preliminary Official Statement or the Official Statement contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

## **TAX MATTERS**

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California ("Bond Counsel"), under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and

corporations. In the further opinion of Bond Counsel, interest on the Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest on the Bonds may be included as an adjustment in the calculation of alternative minimum taxable income which may affect the alternative minimum tax liability of such corporations.

The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of the same series and maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by the Bond Owner will increase the Bond Owner's basis in the Bond. In the opinion of Bond Counsel, the amount of original issue discount that accrues to the owner of the Bond is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

In general, if an owner acquires a Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Bond after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that Bond (a "Premium Bond"). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner's yield over the remaining term of the Premium Bond, determined based on constant yield principles. An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

Bond Counsel's opinion as to the exclusion from gross income of interest (and original issue discount) on the Bonds is based upon certain representations of fact and certifications made by the Authority and others and is subject to the condition that the Authority complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds to assure that interest (and original issue discount) on the Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause the interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The Authority has covenanted to comply with all such requirements.

The amount by which a Bond Owner's original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Bond premium, which must be amortized under Section 171 of the Code; such amortizable Bond premium reduces the Bond Owner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Bond Owner realizing a taxable gain when a Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to

the Owner. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable Bond premium.

The Internal Revenue Service (the “IRS”) has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Bonds will be selected for audit by the IRS. It is also possible that the market value of the Bonds might be affected as a result of such an audit of the Bonds (or by an audit of similar bonds).

Bond Counsel’s opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Indenture and the Tax Certificate relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the exclusion from gross income of interest (and original issue discount) on the Bonds for federal income tax purposes with respect to any Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth.

Although Bond Counsel has rendered an opinion that interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes provided that the Authority continues to comply with certain requirements of the Code, the ownership of the Bonds and the accrual or receipt of interest (and original issue discount) with respect to the Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the Bonds.

A copy of the proposed form of opinion of Bond Counsel is attached hereto as APPENDIX D.

### **CONTINUING DISCLOSURE**

The City has covenanted in the Continuing Disclosure Certificate for the benefit of the holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the City by not later than the nine months following the end of the fiscal year (currently its fiscal years end on June 30) (the “Annual Reports”), commencing with the fiscal year ending June 30, 2001, and to provide notices of the occurrence of certain enumerated events, if material.

The Authority has covenanted in a Continuing Disclosure Certificate for the benefit of the holders and beneficial owners of the Bonds to provide notices of the occurrence of certain enumerated events, if material. The City has never failed to comply in all material respects with any previous undertaking with regard to Rule 15c2-12(b)(5) promulgated under the Securities Exchange Act of 1934, as amended, to provide annual reports or notices of material events.

The Annual Reports and the notices of material events will be filed by the Trustee as Dissemination Agent with each Nationally Recognized Municipal Securities Information Repository. The specific nature of the information to be contained in the Annual Reports and the notice of material events is set forth in Appendix F—“FORM OF CONTINUING DISCLOSURE CERTIFICATE” hereto. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) promulgated under the Securities Exchange Act of 1934.

## **RATING**

The Bonds have been rated “AAA” by Fitch IBCA, Duff & Phelps, Inc. (“Fitch”) and “Aaa” by Moody’s Investor Service (“Moody’s”) based on the Insurance Policy of the Insurer. See “BOND INSURANCE” herein. Fitch has assigned the Bonds an underlying rating of “A” and Moody’s Investors Service has assigned an underlying rating of “A3” without respect to the Insurance Policy. These ratings reflect such rating agencies’ views of the credit quality of the Authority with respect to its payment obligation with respect to the Bonds. Generally, rating agencies base their ratings on information and material furnished directly to them and on investigations, studies and assumptions made by them. The rating reflects only the views of such organization and an explanation of the significance of such rating may be obtained from Moody’s Investors Service, 99 Church Street, New York, New York 10007 and Fitch IBCA Duff & Phelps, Inc., One State Street Plaza, New York, New York 10004. There is no assurance that the rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating agency, if, in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

## **BANK QUALIFIED**

The Authority has not issued, and does not expect to issue, any tax-exempt obligations (other than the Bonds) in the calendar year commencing January 1, 2001, that exceed the aggregate of \$10,000,000. On the basis of this expectation, the Authority has designated the Bonds as qualified tax-exempt obligations under and for the purposes of Section 265(b)(3) of the Code.

## **UNDERWRITING**

The Bonds were sold under competitive sale, and were awarded to Salomon Smith Barney, whose proposal represented the lowest true interest rate for the Bonds.

the bonds are being purchased by Salomon Smith Barney at a purchase price of \$7,425,000 which represents the aggregate principal amount of the Bonds less an underwriter’s discount of \$139,146.20 and plus an original issue premium of \$64,146.20.

## **FINANCIAL ADVISOR**

Fieldman, Rolapp & Associates, Irvine, California, has served as Financial Advisor to the Authority and the City with respect to the sale of the Bonds. The Financial Advisor has assisted in various matters relating to the planning, structuring and issuance of the Bonds. The Financial Advisor has not independently verified any of the data contained in this Official Statement or conducted a detailed investigation of the affairs of the City or the Authority to determine the accuracy or completeness of this Official Statement. Therefore, the Financial Advisor assumes no responsibility for the accuracy or completeness of any of the information contained in this Official Statement. The payment of fees of the Financial Advisor is contingent upon the closing of the financing.

## **MISCELLANEOUS**

Insofar as any statements made in this Official Statement involve matters of opinion or of estimates, whether or not expressly stated, they are set forth as such and not as representations of fact. No representation is made that any of such statements made will be realized. Neither this Official Statement nor



any statement which may have been made verbally or in writing is to be construed as a contract with the Owners of the Bonds.

The execution and delivery of this Official Statement have been duly authorized by the Authority and the City.

**BELMONT JOINT POWERS FINANCING  
AUTHORITY**

By: /s/ David Warden  
Chairperson

**CITY OF BELMONT**

By: /s/ David Warden  
Mayor

**APPENDIX A**  
**EXCERPTS FROM CITY' FINANCIAL STATEMENTS**

## **APPENDIX B**

### **GENERAL INFORMATION RELATING TO THE CITY OF BELMONT**

*Information contained in this APPENDIX B is presented as general background data. The Bonds are payable solely from the System Net Revenues and other sources as described herein. The taxing power of the City of Belmont, the State of California, or any political subdivision thereof is not pledged to the payment of the Bonds.*

#### **General**

The City of Belmont (the "City"), located in San Mateo County, is situated approximately 25 miles south of San Francisco. The City covers about 4.61 square miles. Elevation in the City ranges from 10 to 750 feet above sea level.

#### **Climate**

The City enjoys mediterranean-type sun-belt weather with warm summers and mild winters. Year-round temperatures average from a January minimum of 42 degrees to a July maximum of 75 degrees. The average yearly rainfall of 18 inches occurs predominantly during the winter months. Humidity is fairly constant throughout the year at around 70%. Prevailing winds are from the southeast averaging 8-10 miles per hour.

#### **Municipal Government**

The City was incorporated as a general law city in 1926. A Council-Manager form of municipal government is utilized. Five council members, including the Mayor, appoint the City Manager to administer day-to-day affairs under the policy guidelines of the City Council. As of June 30, 2000, the City had approximately 162 full time equivalent employees. Audited 1999-2000 General Fund revenues and expenditures equaled \$15 million and \$11 million, respectively. Budgeted 2000-01 General Fund revenues and expenditures equaled \$12.7 million and \$13.6 million, respectively. Budgeted 2001-2002 General Fund revenues and expenditures equal approximately \$14.5 and \$14.9, respectively.

Law enforcement services are provided by the Belmont Police Department.

Fire protection and rescue service is provided for Belmont and San Carlos by the South County Fire Authority, a joint powers authority formed by such municipalities.

## Population

The City is a community with a stable population in 2001 of approximately 25,450. Population has remained relatively constant since 1970.

### City of Belmont Population 1960-2001

<u>Year</u>	<u>Population<sup>(1)</sup></u>
1960	14,996
1970	23,538
1980	24,505
1985	24,410
1990	24,482
1991	24,350
1992	24,550
1993	24,700
1994	24,950
1995	24,400
1996	24,500
1997	24,700
1998	25,150
1999	25,200
2000	25,250
2001	25,450

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<sup>(1)</sup> As of April 1 for 1960, 1970, 1980 and 1990; as of January 1 for 1991-2001

Source: U.S. Census Bureau for 1960, 1970, 1980, 1990 and 2000. California State Department of Finance for other years.

## Effective Buying Income

The following table summarizes the total effective buying income and the median household effective buying income for the County and State for the years 1996 to 2000.

### EFFECTIVE BUYING INCOME 1996 through 2000 (As of December 31)

	Area	Total	Median Household Income
1996	San Mateo County	\$14,862,432	\$47,876
	California	\$492,516,991	\$35,216
1997	San Mateo County	\$16,207,690	\$50,511
	California	\$524,439,600	\$36,483
1998	San Mateo County	\$17,481,255	\$52,452
	California	\$551,999,317	\$37,091
1999	San Mateo County	\$18,721,334	\$56,433
	California	\$590,376,683	\$39,492
2000	San Mateo County	\$20,511,262	\$65,565
	California	\$652,190,282	\$44,464

Source: Sales and Marketing Management Survey of Buying Power.

## Employment

The City of Belmont is included in San Mateo County's Annual Average Labor Force and Industry Employment from the State of California Employment Development Department. The civilian labor force, employment and unemployment for San Mateo County, the State, and the United States is set forth below.

### CIVILIAN LABOR FORCE EMPLOYMENT AND UNEMPLOYMENT<sup>(1)</sup> 1996-2000

		<u>Labor Force</u>	<u>Employment</u>	<u>Unemployment</u>	<u>Unemployment Rate (%)</u>
1996	San Mateo County	376,000	363,400	12,600	3.4
	California	15,511,600	14,391,500	1,120,100	7.2
	United States	133,943,000	126,708,000	7,236,000	5.4
1997	San Mateo County	387,300	376,900	10,400	2.7
	California	15,947,300	14,942,500	1,004,700	6.3
	United States	136,297,000	129,558,000	6,739,000	4.9
1998	San Mateo County	394,000	384,400	9,600	2.4
	California	16,336,500	15,367,500	969,000	5.9
	United States	137,673,000	131,463,000	6,210,000	4.5
1999	San Mateo County	398,300	390,500	7,800	2.0
	California	16,596,500	15,731,700	864,800	5.2
	United States	139,368,000	133,488,000	5,880,000	4.2
2000	San Mateo County	411,300	404,700	6,600	1.6
	California	17,090,800	16,245,600	845,200	4.9
	United States	140,863,000	135,208,000	5,655,000	4.0

Source: State of California Employment Development Department.

<sup>(1)</sup> The figures used for the civilian labor force employment and unemployment are an annual average; data are not seasonally adjusted.

## Construction Activity

Details of construction activity in the City is set forth below.

### CITY OF BELMONT BUILDING PERMIT VALUATIONS (in thousands of dollars) 1996-2000

	1996	1997	1998	1999	2000
Number of New Housing Units	108	46	19	33	5
<b>VALUATIONS</b>					
Residential					
Single Unit	\$21,875.5	\$7,400.5	\$4,554.0	\$7,175.0	\$1,904.0
Multiple Units	-0-	-0-	-0-	-0-	-0-
Alterations/Additions	3,901.3	4,049.5	5,663.9	5,767.4	7,349.7
Total Residential	<u>25,776.8</u>	<u>11,450.2</u>	<u>10,217.9</u>	<u>12,942.4</u>	<u>9,253.7</u>
Non-Residential					
New Commercial	7,500.0	3,500.0	400.0	8,900.0	-0-
New Industrial	-0-	-0-	-0-	-0-	-0-
Other Nonresidential	162.5	331.8	273.0	7,540.5	4,963.5
Non-Residential Alterations/Additions	1,389.1	1,498.7	1,240.0	4,491.0	10,877.5
Total Non-Residential	<u>9,051.5</u>	<u>5,330.5</u>	<u>7,913.0</u>	<u>20,931.5</u>	<u>15,840.5</u>
Total Valuation	<u>\$34,828.3</u>	<u>\$16,780.7</u>	<u>\$12,130.9</u>	<u>\$33,874.0</u>	<u>\$25,094.2</u>

Source: Construction Industry Research Board.

Note: Totals may not add to sums because of independent rounding.

## Commercial Activity

A five year summary of taxable transactions in the City is set forth below.

### CITY OF BELMONT VALUATION OF TAXABLE TRANSACTIONS (in thousands of dollars) 1995-1999

Year	Retail Outlets		Total All Outlets	
	No. of Permits	Taxable Transaction	No. of Permits	Taxable Transaction
1995	205	\$77,040	806	\$181,163
1996	196	95,172	786	179,201
1997	209	134,546	781	243,642
1998	199	149,172	702	286,512
1999	224	175,574	709	287,498

Source: State Board of Equalization.

## Average Civilian Employment by Industry

The following is a summary of average employment by industry in San Mateo County from 1996 through 2000. This data does not include self-employed persons, volunteer workers, unpaid family workers, farmers, private household workers, or persons involved in labor-management disputes.

### San Mateo County Wage Salary Employment by Industry 1996-2000

<u>Industry</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Agriculture	\$2,700	2,900	\$2,900	\$2,900	\$2,900
Mining and Construction	13,400	15,500	16,800	17,800	19,800
Manufacturing	35,300	36,700	37,600	36,900	36,700
Transportation and Public Utilities	37,600	38,800	40,500	42,100	43,600
Wholesale Trade	20,800	21,500	21,300	20,800	20,600
Retail Trade	54,200	55,400	58,100	59,700	59,900
Finance, Insurance, Real Estate	21,600	23,000	23,900	23,700	23,000
Services	102,500	109,900	112,800	121,900	137,000
Government*	<u>31,100</u>	<u>30,100</u>	<u>31,400</u>	<u>32,100</u>	<u>32,600</u>
Total	<u>\$319,200</u>	<u>\$333,600</u>	<u>\$345,300</u>	<u>\$357,900</u>	<u>\$376,000</u>

Source: State of California, Employment Development Department.

\* Includes all civilian government employees regardless of activity in which engaged.

## Public Utilities

Water is supplied to the City by Belmont County Water District. Electricity and natural gas are provided by Pacific Gas & Electric Company and the telephone service is supplied by Pacific Bell.

## Transportation

**Highways:** The City is served by U.S. 101 and Interstate 280 for North/South traffic and is located halfway between State Highways 92 and 84 for East/West traffic across the bay and to the coast. Major local streets are: El Camino Real (U.S. 101), Ralston Avenue and Alameda de las Pulgas.

**Rail:** The City is served by Union Pacific Railroad's main line with local spurs. Commuter train service is provided by CAL TRAIN to San Francisco and San Jose from the Belmont Depot located on El Camino Real at Ralston Avenue.

**Trucks:** Approximately 50 common carriers serve the area including two with terminals in San Carlos. Overnight deliveries are made to all points within 500 miles and all California cities.

**Bus:** Regional and local bus service is provided by SamTrans (San Mateo County Transit) between San Francisco and Palo Alto. SamTrans also coordinates its service with other regional agencies (BART, Santa Clara County Transit, etc.).

**Water:** The City is 20 miles south of San Francisco port facilities, four miles north of Redwood City port facilities and 30 miles across the bay from the Port of Oakland.



Air: San Francisco International Airport is located 10 miles to the north. San Jose is 32 miles to the south and the neighboring (3 miles) San Carlos Airport is a local general aviation facility with a control tower and runway 2,600 feet long.

### **Assessed Valuations**

Set forth below is a listing of the City's assessed valuations (before redevelopment adjustment) for fiscal years 1996-97 through 2000-01.

**City of Belmont  
Assessed Valuations  
1996-97 through 2000-01**

<b>Fiscal Year</b>			
<b><u>Ending</u></b>		<b><u>Personal</u></b>	
<b><u>June 30</u></b>	<b><u>Real Property</u></b>	<b><u>Property</u></b>	<b><u>Total</u></b>
1997	\$1,827,224,779	\$46,793,626	\$1,874,018,405
1998	1,933,335,022	49,659,834	1,982,994,856
1999	2,127,416,478	66,932,456	2,194,348,934
2000	2,296,128,061	59,230,677	2,355,358,738
2001	2,714,136,262	94,770,443	2,808,906,705

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Source: San Mateo County Assessor's Office.

## APPENDIX C

### DEFINITIONS AND SUMMARY OF LEGAL DOCUMENTS

The following is a brief summary of certain of the definitions and provisions of the Indenture and the Installment Purchase Agreement. Except where indicated, Installment Purchase Agreement and the Indenture are substantially similar and their terms are collectively summarized in this Appendix. This summary is not intended to be comprehensive or definitive, and reference is made to the actual documents for the complete terms thereof.

#### DEFINITIONS

The following are summaries of certain of the definitions in the Indenture and the Installment Purchase Agreement. This summary is not intended to be comprehensive or definitive, and reference is made to the actual documents for the complete terms thereof.

##### Agreement

The term “Agreement” means the Installment Purchase Agreement, by and between the City and the Authority, as originally executed and as it may from time to time be amended or supplemented.

##### Annual Debt Service

The term “Annual Debt Service” means, for any Fiscal Year, the sum of (1) the interest accruing on all Parity Debt during such Fiscal Year, assuming that all Parity Debt is retired as scheduled, plus (2) the principal amount (including principal due as sinking fund installment payments) allocable to all Parity Debt in such Fiscal Year, calculated as if such principal amounts were deemed to accrue daily during such Fiscal Year in equal amounts from, in each case, each payment date for principal or the date of delivery of such Parity Debt (provided that principal shall not be deemed to accrue for greater than a 365-day period prior to any payment date), as the case may be, to the next succeeding payment date for principal, *provided*, that the following adjustments shall be made to the foregoing amounts in the calculation of Annual Debt Service:

(A) with respect to any such Parity Debt bearing or comprising interest at other than a fixed interest rate, the rate of interest used to calculate Annual Debt Service shall be (i) with respect to such Parity Debt then outstanding, one hundred ten per cent (110%) of the greater of (1) the daily average interest rate on such Parity Debt during the twelve (12) calendar months next preceding the date of such calculation (or the portion of the then current Fiscal Year that such Parity Debt has borne interest) or (2) the most recent effective interest rate on such Parity Debt prior to the date of such calculation or (ii) with respect to such Parity Debt then proposed to be issued, 80% of the interest rate on actively traded 30-year United States Treasury obligations;

(B) with respect to any such Parity Debt having twenty-five per cent (25%) or more of the aggregate principal amount thereof due in any one Fiscal Year, Annual Debt Service shall be calculated for the Fiscal Year of determination as if the interest on and principal of such Parity Debt were being paid from the date of incurrence thereof in substantially equal annual amounts over a period of twenty (20) years from the date of such Parity Debt provided, however that the full amount of such Parity Debt shall be included in Annual Debt Service if the date of calculation is within 24 months of the actual maturity of the payment;

(C) with respect to any such Parity Debt or portions thereof bearing no interest but which are sold at a discount and which discount accretes with respect to such Parity Debt or portions thereof, such accreted discount shall be treated as due when scheduled to be paid;

(D) Annual Debt Service shall not include interest on Parity Debt which is to be paid from amounts constituting capitalized interest;

(E) if an interest rate swap agreement is in effect with respect to, and is payable on a parity with, any Parity Debt to which it relates, no amounts payable under such interest rate swap in excess of debt service payable under such Parity Debt agreement shall be included in the calculation of Annual Debt Service unless the sum of (i) the interest payable on such Parity Debt, plus (ii) the amounts payable by the City under such interest rate swap agreement, less (iii) the amounts receivable by the City under such interest rate swap agreement, are greater than the interest payable on such Parity Debt, in which case the amount of such payments to be made that exceed the interest to be paid on such Parity Debt shall be included in such calculation, and for this purpose, the variable amount under any such interest rate swap agreement shall be determined in accordance with the procedure set forth in subparagraph (A) of this definition; and

(F) Repayment Obligations proposed to be entered into as Parity Debt shall be deemed to be payable at the scheduled amount due under such Repayment Obligation as calculated under this definition.

#### Authorized Investments

“Authorized Investments” means any of the following obligations which at the time of investment are legal investments of funds of the City under the laws of the State of California for the money proposed to be invested under the Indenture:

(1) (a) Direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America (“United States Treasury Obligations”) (b) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America, (c) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America, or (d) evidences of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated.

(2) Federal Housing Administration debentures.

(3) The listed obligations of government-sponsored agencies which are not backed by the full faith and credit of the United States of America:

-Federal Home Loan Mortgage Corporation (FHLMC)

Participation certificates (excluding stripped mortgage securities which are purchased at prices exceeding their principal amounts)

Senior debt obligations

-Farm Credit Banks (formerly: Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives)  
Consolidated system wide bonds and notes

-Federal Home Loan Banks (FHL Banks)  
Consolidated debt obligations

- Federal National Mortgage Association (FNMA)
  - Senior debt obligations
  - Mortgage-backed securities (excluding stripped mortgages securities which are purchased at prices exceeding their principal amounts)
- Student Loan Marketing Association (SLMA)
  - Senior debt obligations (excluding securities that do not have a fixed par value and/or the terms of which do not promise a fixed dollar amount at maturity or call date)
- Financing Corporation (FICO)
  - Debt obligations
- Resolution Funding Corporation (REFCORP)
  - Debt obligations

(4) Unsecured certificates of deposit, deposit accounts, time deposits, and bankers' acceptances (having maturities of not more than 30 days) of any bank the short-term obligations of which are rated "A-1" or better by Standard & Poor's.

(5) Deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation (FDIC), in banks which have capital and surplus of at least \$5 million.

(6) Commercial paper (having original maturities of not more than 270 days) rated "A-1+" by Standard & Poor's and "Prime-1" by Moody's.

(7) Money market funds rated "AAm" or "AAm-G" by Standard & Poor's, or better, including funds which the Trustee or an affiliate manages, sponsors and advises.

(8) Repurchase agreements with (1) any domestic bank, or domestic branch of a foreign bank, the long term debt of which is rated at least "A" by Standard & Poor's and Moody's; or (2) any broker-dealer with "retail customers" or a related affiliate thereof which broker-dealer has, or the parent company (which guarantees the provider) of which has, long-term debt rated at least "A" by Standard & Poor's and Moody's, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation; or (3) any other entity rated "A" or better by Standard & Poor's and Moody's and acceptable to the Bond Insurer, if any, provided that:

- A. The market value of the collateral is maintained at levels and upon such conditions as would be acceptable to Standard & Poor's to maintain an "A" rating in an "A" rated structured financing (with at least a weekly market value approach);
- B. The Trustee or a third party acting solely as agent therefor or for the Authority (the "Holder of the Collateral") has possession of the collateral or the collateral has been transferred to the Holder of the Collateral in accordance with applicable state and federal laws (other than by means of entries on the transferor's books);
- C. The repurchase agreement shall state and an opinion of counsel shall be rendered at the time such collateral is delivered that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession);

- D. All other requirements of Standard & Poor's and Moody's in respect of repurchase agreements shall be met;
- E. The repurchase agreement shall provide that if during its term the provider's rating by either Moody's or Standard & Poor's is withdrawn or suspended or falls below "A-" by Standard & Poor's or "A3" by Moody's, as appropriate, the provider must, at the direction of the Authority or the Trustee (who shall give such direction if so desired by the Bond Insurer, if any), within 10 days of receipt of such direction, repurchase all collateral and terminate the agreement, with no penalty or premium to the Authority or Trustee.

Notwithstanding the above, if a repurchase agreement has a term of 270 days or less (with no evergreen provision), collateral levels need not be as specified in (A) above, so long as such collateral levels are 103% or better and the provider is rated at least "A" by Standard & Poor's and Moody's, respectively.

(9) State Obligations, which means:

(i) Direct general obligations of any state of the United States or any subdivision or agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation debt of which is rated "A3" by Moody's and "A" by Standard & Poor's, or better, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured general obligation debt is so rated.

(ii) Direct, general short-term obligations of any state agency or subdivision described in (a) above and rated "A-1+" by Standard & Poor's and "Prime-1" by Moody's.

(iii) Special Revenue Bonds (as defined in the United States Bankruptcy Code) of any state, state agency or subdivision described in (a) above and rated "AA" or better by Standard & Poor's and "Aa" or better by Moody's.

(10) Investment agreements with a domestic or foreign bank or corporation (other than a life or property casualty insurance company) the long-term debt of which, or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor is rated at least "AA" by Standard & Poor's and "Aa" by Moody's; provided that, by the terms of the investment agreement:

- A. interest payments are to be made to the Trustee at times and in amounts as necessary to pay debt service (or, if the investment agreement is for the Project Fund, construction draws) on the Bonds;
- B. the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven days' prior notice; the Authority and the Trustee agree to give or cause to be given notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid;
- C. the investment agreement shall state that it is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof or, if the provider is a bank, the agreement or the opinion of counsel shall state that the obligation of the provider to make payments thereunder ranks pari passu with the obligations of the provider to its other depositors and its other unsecured and unsubordinated creditors;
- D. the Authority or the Trustee receives the opinion of domestic counsel (which opinion shall be addressed to the Authority and the Bond Insurer, if any) that such investment agreement is legal,

valid, binding and enforceable upon the provider in accordance with its terms and of foreign counsel (if applicable) in form and substance acceptable, and addressed to, the Bond Insurer, if any;

- E. the investment agreement shall provide that if during its term
  - i) the provider's rating by either Standard & Poor's or Moody's falls below "AA-" or "Aa3", respectively, the provider shall, at its option, within 10 days of receipt of publication of such downgrade, either (i) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider's books) to the Authority, the Trustee or a third party acting solely as agent therefor (the "Holder of the Collateral") collateral free and clear of any third-party liens or claims the market value of which collateral is maintained at levels and upon such conditions as would be acceptable to Standard & Poor's and Moody's to maintain an "A" rating in an "A" rated structured financing (with at least a weekly market value approach); or (ii) repay the principal of and accrue but unpaid interest on the investment, and
  - ii) the provider's rating by either Standard & Poor's or Moody's is withdrawn or suspended or falls below "A-" or "A3", respectively, the provider must, at the direction of the Authority or the Trustee (who shall give such direction if so directed by the Bond Insurer, if any), within 10 days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium to the Authority or Trustee;
- F. the investment agreement shall state and an opinion of counsel shall be rendered, in the event collateral is required to be pledged by the provider under the terms of the investment agreement, at the time such collateral is delivered, that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession);
- G. the investment agreement must provide that if during its term:
  - i) the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the Authority or the Trustee (who shall give such direction if so directed by the Bond Insurer, if any), be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Authority or Trustee, as appropriate, and
  - ii) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be bankrupt, etc. ("event of insolvency"), the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Authority or Trustee, as appropriate.

(11) Pre-funded municipal obligations rated "AAA" by Standard & Poor's and "Aaa" by Moody's meeting the following requirements:

- (i) the municipal obligations are (i) not subject to redemption prior to maturity or (ii) the trustee for the municipal obligations has been given irrevocable instructions concerning their call and redemption and the issuer of the municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions;

(ii) the municipal obligations are secured by cash or United States Treasury obligations which may be applied only to payment of the principal of, interest and premium on such municipal obligations;

(iii) the principal of and interest on the United States Treasury Obligations (plus any cash in the escrow) has been verified by the report of independent certified public accountants to be sufficient to pay in full all principal of, interest, and premium, if any, due and to become due on the municipal obligations ("Verification");

(iv) the cash or United States Treasury Obligations serving as security for the municipal obligations are held by an escrow agent or trustee in trust for owners of the municipal obligations;

(v) no substitution of a United States Treasury Obligation shall be permitted except with another United States Treasury obligation and upon delivery of a new Verification; and

(vi) the cash or the United States Treasury Obligations are not available to satisfy any other claims, including those by or against the trustee or escrow agent.

(12) Subject to the prior written consent of the Bond Insurer, if any, local California agency investment pools, so long as such pool is rated in one of the two highest rating categories by Standard & Poor's and Moody's.

(13) The Local Agency Investment Fund administered by the State of California.

(14) Other forms of investments approved in writing by the Insurer, if any, with notice to Standard & Poor's.

#### Installment Payments

"Installment Payments" means the installment payments due under the Installment Purchase Agreement.

#### Maximum Annual Debt Service

The term "Maximum Annual Debt Service" means, as of any date of calculation, the largest Annual Debt Service during the period from the date of such calculation through the final maturity date of all Parity Debt.

#### Net Proceeds

The term "Net Proceeds" means, when used with respect to any casualty insurance or condemnation award, the proceeds from such insurance or condemnation award remaining after payment of all expenses (including attorneys' fees) incurred in the collection of such proceeds.

#### Operation and Maintenance Costs

The term "Operation and Maintenance Costs" means the reasonable and necessary costs paid or incurred by the City for maintaining and operating the System, determined in accordance with Generally Accepted Accounting Principles, including all reasonable expenses of management and repair and all other expenses necessary to maintain and preserve the System in good repair and working order, and including all administrative costs of the City that are charged directly or apportioned to the operation of the System, such as salaries and wages of employees, overhead, taxes (if any) and insurance premiums (including payments required to be paid into any self-insurance funds), and including all other reasonable and necessary costs of the City or charges required to be paid by it to comply with the terms of the Agreement or of any Supplemental Agreement or of any resolution authorizing the execution of any Parity Debt, such as compensation, reimbursement and indemnification of the Trustee and the Authority and fees

and expenses of Independent Certified Public Accountants; but excluding in all cases (i) payment of Parity Debt and Subordinate Obligations, (ii) costs of capital additions, replacements, betterments, extensions or improvements which under Generally Accepted Accounting Principles are chargeable to a capital account, and (iii) depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles.

#### Parity Debt

The term “Parity Debt” means the Installment Payments and any Parity Obligations.

#### Parity Obligation Payments

The term “Parity Obligation Payments” means the payments scheduled to be paid by the City under and pursuant to the Parity Obligations, which payments are secured by a pledge of System Net Revenues on a parity with the Installment Payments.

#### Parity Obligations

The term “Parity Obligations” means all obligations of the City authorized and executed by the City other than the Installment Payments, the Parity Obligation Payments under which are secured by a pledge of the System Net Revenues on a parity with the Installment Payments, including but not limited to any Repayment Obligations secured by System Net Revenues on a parity with the Installment Payments.

#### Prior Liens

The term “Prior Liens” means those liens, if any, on the System Revenues which are prior to the pledge under the Agreement.

#### Project

“Project” means the public capital improvements of the City financed under the Installment Purchase Agreement.

#### Purchase Price

The term “Purchase Price” means the principal amount plus interest thereon owed by the City to the Authority under the terms of the Agreement.

#### Record Date

“Record Date” means the close of business on the 15th day of the month preceding any Interest Payment Date, whether or not such day is a Business Day.

#### Repayment Obligation

“Repayment Obligation” means the reimbursement obligation or any other payment obligation under a written agreement between the City and a credit provider to reimburse the credit provider for amounts paid pursuant to a credit facility for the payment of the principal amount or purchase price of and/or interest on any Parity Debt.

#### Reserve Fund

“Reserve Fund” means the Reserve Fund held under the Indenture.



### Reserve Fund Requirement

The term “Reserve Fund Requirement” means the amount required to be on deposit in the Reserve Fund as provided in the Indenture; *provided*, that notwithstanding any provision hereof to the contrary, all or any portion of the Reserve Fund Requirement may (following written notification to the rating agencies then rating the Bonds) be satisfied by the provision of a policy of insurance, a surety bond, a letter of credit or other comparable credit facility, or a combination thereof, which, together with money on deposit in such Reserve Fund, provide an aggregate amount equal to the Reserve Fund Requirement, so long as (i) the provider of any such policy of insurance, surety bond, letter of credit or other comparable credit facility is rated in one of the two highest rating categories (at all times) by Moody’s and by Standard & Poor’s, (ii) in the case of a substitution of cash for a credit facility, the Trustee has received an opinion of counsel of recognized standing in the field of law relating to municipal bonds substantially to the effect that such substitution is authorized or permitted under the Indenture and will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes, (iii) if such credit facility is not an irrevocable surety bond in the highest rating category of both Moody’s and Standard & Poor’s, the Trustee has received written confirmation from Moody’s and Standard & Poor’s that such substitution will not cause a lowering or withdrawal of any ratings on the Bonds, and (iv) the Trustee has received an opinion of counsel to the effect that the credit facility to be substituted is a valid, binding and legally enforceable obligation; and *provided further*, that in the event that any previously funded cash portion of the Reserve Fund Requirement is satisfied by the provision of such a policy of insurance, surety bond, letter of credit or other comparable credit facility, or a combination thereof, the amount of money then in such Reserve Fund equal to the portion of the Reserve Fund Requirement then being satisfied by such credit facility shall (upon receipt of a Written Request of the related City) be withdrawn by the Trustee from such Reserve Fund and transferred to the related City.

### Revenues

“Revenues” means all Installment Payments received or receivable by the Authority.

### Subordinate Obligations

The term “Subordinate Obligations” means the obligations of the City that are subordinate in payment to the Installment Payments.

### Supplemental Agreement

The term “Supplemental Agreement” means any agreement then in full force and effect which has been entered into by the City and the Trustee, amendatory of or supplemental to the Agreement; but only if and to the extent that such Supplemental Agreement is specifically authorized under the Agreement.

### System

The term “System” means the whole and each and every part of the sewer system of the City, including the portion thereof existing on the date of the Agreement, and including all additions, betterments, extensions and improvements to such system or any part thereof and hereafter acquired or constructed.

### System Net Revenues

The term “System Net Revenues” means for any period System Revenues less Operation and Maintenance Costs for such period; provided that certain adjustments in the amount of System Net Revenue deemed collected during a Fiscal Year may be made in connection with amounts deposited in the Rate Stabilization Fund.

### System Revenues

The term “System Revenues” means all sewer service charges received or receivable by the City from the ownership or operation of the System, determined in accordance with Generally Accepted Accounting Principles, including all fees, rates, charges and all amounts paid under any contracts received by or owed to the City in connection with the operation of the System and all proceeds of insurance relating to the System and all other income and revenue howsoever derived by the City from the ownership or operation of the System or arising from the System, subject to and after satisfaction of any Prior Liens. System Revenues shall not include interest earned on investments, income on joint ventures, disaster assistance or intergovernmental transfers, connection fees or developer agreement revenues.

## **SUMMARY OF INDENTURE**

The following is a summary of certain of the provisions of the Indenture. This summary is not intended to be comprehensive or definitive, and reference is made to the actual document for the complete terms thereof.

**Procedure for Amendment of the Indenture.** The Indenture and the rights and obligations of the Authority and of the Owners under the Indenture and any Installment Purchase Agreement and the rights and obligations of the City and Authority under the Indenture may be amended at any time by a Supplemental Indenture or Supplemental Agreement which shall become binding when the written consents of the Owners of at least sixty per cent (60%) in aggregate principal amount of the Bonds then Outstanding (exclusive of Bonds disqualified as provided in the Indenture) and the written consent of the Bond Insurer, if any, are filed with the Trustee; provided that if a Municipal Bond Insurance Policy is in effect, the Bond Insurer, if any, may give consent to amendments in place of the Owners of the Bonds. No such amendment shall (1) extend the maturity of or reduce the interest rate on, or otherwise alter or impair the obligation of the Authority to pay the interest or principal or redemption premium, if any, of any Bond or reduce the scheduled Installment Payments to come due, without the express written consent of the Owner of the affected Bond, or (2) permit the creation by the Authority of any mortgage, pledge or lien upon the Revenues superior to or on a parity with the pledge and lien created for the benefit of the Bonds or (3) permit the creation by the City of any mortgage, pledge or lien upon the System Revenues (as defined in the Installment Purchase Agreement) superior to or on a parity with the pledge and lien created by an Installment Purchase Agreement, (4) reduce the percentage of Bonds required for the written consent to any such amendment, or (5) modify the rights or obligations of the Trustee without its prior written assent thereto.

The Indenture and the rights and obligations of the Authority and of the Owners and any Installment Purchase Agreement and the rights and obligations of the City and the Authority thereunder may also be amended at any time by a Supplemental Indenture or Supplemental Agreement which shall become binding upon execution, without the consent of any Owners or Bond Insurer but only to the extent permitted by law and only for any one or more of the following purposes:

- (a) To add to the agreements and covenants of the Authority or a City other agreements and covenants thereafter to be observed, or to surrender any right or power reserved to or conferred upon the Authority or the City;
- (b) To make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision, or in regard to questions arising thereunder, as may deem

necessary or desirable and not inconsistent therewith, and which shall not materially adversely affect the interests of the Owners of the Outstanding Bonds;

(c) To modify, amend or supplement the Indenture in such manner as to permit the qualification under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially adversely affect the interests of the Owners of the Bonds;

(d) To maintain the exclusion under the Code of interest on the Bonds from gross income for federal income tax purposes;

(e) To the extent necessary to maintain any then existing rating by Moody's (if Moody's is then rating the Bonds) or Standard & Poor's (if S&P is then rating the Bonds) or Fitch (if Fitch is then rating the Bonds) (or in connection with placing a credit facility in the Reserve Fund or;

(f) For any other purpose that does not materially adversely affect the interests of the Owners of the Outstanding Bonds.

**Events of Default and Acceleration of Maturities.** If one or more of the following events (an "Event of Default") shall happen, that is to say:

(a) If default shall be made in the due and punctual payment of the interest on any Bond or when and as the same shall become due and payable; or

(b) If default shall be made in the due and punctual payment of the principal of or redemption premium, if any, on or of any Sinking Fund Installment for any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by declaration or otherwise; or

(c) If an Event of Default shall occur under the Installment Purchase Agreement;

then, and in each and every such case during the continuance of such Event of Default, the Trustee may, and upon the written request of the Owners of not less than twenty-five per cent (25%) in aggregate principal amount of the Bonds at the time Outstanding, shall, by notice in writing to the Authority, declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything contained in the Indenture or in the Bonds to the contrary notwithstanding; *provided*, any such declaration shall be limited to those Bonds corresponding in principal amount and maturity date to the principal components of delinquent Installment Payments related to such default (Bonds to be selected by lot within a maturity if necessary); *provided further*, that any such declaration shall be subject to the prior written consent of the Bond Insurer, if any; and *provided further* that if, at any time after the principal of the Bonds shall have been so declared due and payable and before any judgment or decree for the payment of the money due shall have been obtained or entered, there shall be deposited with the Trustee a sum sufficient to pay all principal on the Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, and the expenses of the Trustee, including attorneys' fees, together with interest on any such amounts advanced as provided in the Indenture, and any and all other defaults known to the Trustee (other than in the payment of interest and principal on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured or provision shall have been made therefor, then, and in every such case, the Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding, by written notice to the Authority and to the Trustee, may, on behalf of the Owners of all the Bonds, rescind and annul such declaration and its consequences; except that no such rescission or annulment shall occur without the prior written consent of the Bond Insurer, if any, and no such rescission or annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

**Discharge of Bonds.** If there shall be paid, to the Owners of all or a portion of the Outstanding Bonds the interest thereon and principal thereof and redemption premiums, if any, thereon at the times and in the manner stipulated therein and herein, then the owners of such Bonds shall cease to be entitled to the pledge of Revenues as provided in the Indenture, and all agreements, covenants and other obligations of the Authority to the Owners of such Bonds shall thereupon cease, terminate and become void and be discharged and satisfied.

Any Outstanding Bonds for the payment of which money shall have been set aside to be held in trust by the Trustee for such payment at the maturity or redemption date thereof shall be deemed, as of the date of such setting aside, to have been paid.

## **SUMMARY OF THE INSTALLMENT PURCHASE AGREEMENT**

The following is a collective summary of certain of the terms of the Installment Purchase Agreement. This summary is not intended to be comprehensive or definite, and reference is made to the actual documents for the complete terms thereof.

**Changes to the Project.** The City may at any time substitute other public capital improvements for the then existing components of the Project by submitting a Written Request of the City to the Authority and the Trustee specifying the components of the Project to be substituted and the new components.

**Covenant Against Encumbrances.** The City will not mortgage or otherwise encumber, pledge or place any charge upon any of the System Net Revenues except as provided in the Agreement, and will not issue any obligations secured by System Net Revenues senior to the Parity Debt; *provided*, that the City may at any time issue any Subordinate Obligations.

**Covenant Against Sale or Other Disposition of the System.** Except as provided in the Indenture, the City will not sell or otherwise dispose of the System or any part thereof essential to the proper operation of the System or to the maintenance of the System Net Revenues, unless the Installment Payments have been fully paid or provision has been made therefor. The City will not enter into any lease or agreement which impairs the operation of the System or any part thereof necessary to secure adequate System Net Revenues for the payment of the Installment Payments, or which would otherwise impair the rights of the Owners with respect to the System Net Revenues or the operation of the System.

**Covenant Regarding Operation and Maintenance of System.** The City will maintain and preserve the System in good repair and working order at all times and will operate the System in an efficient and economical manner.

**Insurance.** The City will procure and maintain at all times insurance on the System against such risks (including accident to or destruction of the System) as are usually insured in connection with operations similar to the System and, to the extent such insurance is available for reasonable premiums from a reputable insurance company, such insurance shall be adequate in amount and, as to the risks insured against, shall be maintained with responsible insurers; *provided*, that such insurance coverage may be satisfied under a self-insurance program which is actuarially sound.

The City shall procure and maintain or cause to be procured and maintained public liability insurance covering claims against the City (including its directors, officers and employees) for bodily injury or death, or damage to property occasioned by reason of the City's operations, including any use of the System, and such insurance shall afford protection in such amounts as are usually covered in connection with operations similar to the System; *provided*, that such insurance coverage may be satisfied under a self-insurance program which is actuarially sound.

If all or any part of the System shall be damaged or destroyed the Net Proceeds realized by the City therefrom shall be deposited by the City with the Trustee in a special fund which the Trustee shall establish as needed in trust and applied by the City to the cost of acquiring and constructing additions, betterments, extensions or improvements to the System if (A) the City first secures and files with the Trustee a Certificate of the City showing (i) the loss in annual System Revenues, if any, suffered, or to be suffered, by the City by reason of such damage or destruction, (ii) a general description of the additions, betterments, extensions or improvements to the System then proposed to be acquired and constructed by the City from such proceeds, and (iii) an estimate of the additional System Revenues to be derived from such additions, betterments, extensions or improvements; and (B) the Trustee has been furnished a Certificate of the City, certifying that such additional System Revenues will sufficiently offset on a timely basis the loss of System Revenues resulting from such damage or destruction so that the ability of the City to pay Installment Payments when due will not be substantially impaired, and such Certificate of the City shall be final and conclusive, and any balance of such proceeds not required by the City for such purpose shall be deposited in the System Revenue Fund, *provided*, that if the foregoing conditions are not met, then such proceeds shall be deposited with the Trustee and applied to make Installment Payments as they come due and Parity Obligation Payments as they shall become due.

If such damage or destruction have had no effect, or at most an immaterial effect, upon the System Revenues and the security of the Installment Payments, and a Certificate of the City to such effect has been filed with the Trustee, then the City shall forthwith deposit such proceeds in the System Revenue Fund.

**Eminent Domain Proceeds.** If all or any part of the System shall be taken by eminent domain proceedings, the Net Proceeds realized by the City therefrom shall be deposited by the City with the Trustee in a special fund which the Trustee shall establish as needed in trust and applied by the City to the cost of acquiring and constructing additions, betterments, extensions or improvements to the System if (A) the City first secures and files with the Trustee a Certificate of the City showing (i) the loss in annual System Revenues, if any, suffered, or to be suffered, by the City by reason of such eminent domain proceedings, (ii) a general description of the additions, betterments, extensions or improvements to the System then proposed to be acquired and constructed by the City from such proceeds, and (iii) an estimate of the additional System Revenues to be derived from such additions, betterments, extensions or improvements; and (B) the Trustee has been furnished a Certificate of the City, certifying that such additional System Revenues will sufficiently offset on a timely basis the loss of System Revenues resulting from such eminent domain proceedings so that the ability of the City to pay Installment Payments when due will not be substantially impaired, and such Certificate of the City shall be final and conclusive, and any balance of such proceeds not required by the City for such purpose shall be deposited in the System Revenue Fund, *provided*, that if the foregoing conditions are not met, then such proceeds shall be deposited with the Trustee and applied to make Installment Payments as they come due and Parity Obligation Payments as they shall become due.

If such eminent domain proceedings have had no effect, or at most an immaterial effect, upon the System Revenues and the security of the Installment Payments, and a Certificate of the City to such effect has been filed with the Trustee, then the City shall forthwith deposit such proceeds in the System Revenue Fund.

**Events of Default and Acceleration of Maturities.** If one or more of the following Events of Default shall happen, that is to say --

- (1) if default shall be made by the City in the due and punctual payment of any Installment Payment or any Parity Debt when and as the same shall become due and payable;
- (2) if default shall be made by the City in the performance of any of the other agreements or covenants required in the Agreement to be performed by it, and such default shall have continued for a period of thirty (30) days after the City shall have been given notice in writing of such default by the Authority or the Trustee; provided that such default shall not constitute an Event of Default, if the City shall

commence to cure such default within such thirty (30) day period and thereafter diligently and in good faith shall proceed to cure such default within a reasonable period of time;

(3) if the City shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with or without the consent of the City seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the City or of the whole or any substantial part of its property; or

(4) if payment of the principal of any Parity Debt is accelerated in accordance with its terms;

then and in each and every such case during the continuance of such Event of Default specified in clauses (3) and (4) above, the Authority shall, and for any other such Event of Default the Authority may, by notice in writing to the City, declare the entire principal amount of the unpaid Installment Payments and the accrued interest thereon to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable; provided that any such declaration of acceleration shall be subject to the prior written consent of the Bond Insurer, if any. This paragraph however, is subject to the condition that if at any time after the entire principal amount of the unpaid Installment Payments and the accrued interest thereon shall have been so declared due and payable and before any judgment or decree for the payment of the moneys due shall have been obtained or entered the City shall deposit with the Authority a sum sufficient to pay the unpaid principal amount of the Installment Payments or the unpaid payment of any other Parity Debt referred to in clause (1) above due prior to such declaration and the accrued interest thereon, with interest on such overdue installments, at the rate or rates applicable to the remaining unpaid principal balance of the Installment Payments or such other Parity Debt if paid in accordance with their terms, and the reasonable expenses of the Authority and the Bond Insurer, if any, and any and all other defaults known to the Authority (other than in the payment of the entire principal amount of the unpaid Installment Payments and the accrued interest thereon due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Authority and the Bond Insurer, if any, or provision deemed by the Authority and the Bond Insurer, if any, to be adequate shall have been made therefor, then and in every such case the Authority and the Bond Insurer, if any, by written notice to the City, may rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

**Amendments.** The Agreement may only be amended in accordance with the terms of Indenture.

## **APPENDIX D**

### **FORM OF BOND COUNSEL'S OPINION**

Upon the delivery of the Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, Bond Counsel, proposes to render a final approving opinion in substantially the following form:

December 19, 2001

Belmont Joint Powers Financing Authority  
1070 Sixth Avenue  
Belmont, California 94002

**\$7,500,000**  
**Belmont Joint Powers Financing Authority**  
**Sewer Revenue Bonds**  
**Series 2001**

Members of the Governing Board:

We have acted as Bond Counsel in connection with the issuance by the Belmont Joint Powers Financing Authority (the "Authority") of \$7,500,000 aggregate principal amount of Belmont Joint Powers Financing Authority Sewer Revenue Bonds, Series 2001 (the "Bonds") under and pursuant to the provisions relating to the joint exercise of powers found in Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the "Law"), and under and pursuant to the Indenture, dated as of December 1, 2001 (the "Indenture"), by and between the Authority and BNY Western Trust Company, as trustee (the "Trustee").

We have reviewed originals or copies identified to our satisfaction as being true copies of the Indenture and certain other records of the Authority. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of Authority officers furnished to us without undertaking to verify the same by independent investigations.

Based upon the foregoing and after the examination described above and after examination of such questions of law as we have deemed relevant in the circumstances, but subject to the limitations set forth above, we are of the opinion that:

1. The Authority has lawful authority under the Law to enter into the Indenture, and the Authority has duly authorized, executed and delivered the Indenture and, assuming due authorization, execution and delivery by the respective other parties thereto, the Indenture is a legal, valid and binding obligation of the Authority enforceable in accordance with its terms. The Indenture creates a valid pledge of the Revenues (as defined in the Indenture), subject to the provisions thereof permitting the application thereof for the purposes and on the terms and conditions set forth therein.

2. The Authority has lawful authority to issue the Bonds and the Bonds have been duly and validly authorized and issued by the Authority in accordance with the Constitution and statutes of the State of California, including the Law and the Indenture. The Bonds constitute legal, valid and binding special obligations of the Authority payable solely from Revenues and amounts on deposit in certain funds and accounts held under the Indenture. The Bonds are not an obligation of the State of California, any public

agency thereof (other than the Authority payable solely from the Revenues), the City of Belmont or any member of the Authority; and neither the faith and credit nor the taxing powers of the State of California or any public agency thereof or any member of the Authority is pledged for the payment of the Bonds. The Authority has no taxing power.

3. Under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority, the City and others in connection with the Bonds, and Bond Counsel has assumed compliance by the Authority and the City with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

4. Interest on the Bonds is exempt from State of California personal income tax.

Bond Counsel expresses no opinion regarding any other Federal or state tax consequences with respect to the Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update its opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Bond Counsel expresses no opinion on the effect of any action taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Bonds.

The opinions expressed herein are based upon our analysis and interpretation of laws, regulations, rulings and judicial decisions as they exist on the date hereof and cover certain matters not directly addressed by such authorities. We call attention to the fact that the rights and obligations under the Indenture and the Bonds are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California.

Respectfully submitted,

STRADLING YOCCA CARLSON & RAUTH



## **APPENDIX E**

### **INFORMATION CONCERNING DTC**

The information concerning DTC set forth herein has been supplied by DTC, and the Authority assumes no responsibility for the accuracy thereof.

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants (“DTC Participants”) deposit with DTC. DTC also facilitates the settlement among DTC Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in DTC Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. “DTC Direct Participants” include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its DTC Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly (“DTC Indirect Participants”). The Rules applicable to DTC and its DTC Participants are on file with the Securities and Exchange Commission.

Purchases of Bonds under the DTC system must be made by or through DTC Direct Participants, which will receive credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (a “Beneficial Owner”) is in turn to be recorded on the Direct and DTC Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or DTC Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of DTC Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by DTC Participants with DTC are registered in the name of DTC’s nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the DTC Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The DTC Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to DTC Direct Participants, by DTC Direct Participants to DTC Indirect Participants, and by DTC Direct Participants and DTC Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the Bonds within an issue are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each DTC Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those DTC Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to DTC. DTC's practice is to credit DTC Direct Participants' accounts on the payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on a payment date. Payments by DTC Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such DTC Participant and not of DTC, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Trustee, disbursement of such payments to DTC Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and DTC Indirect Participants.

The Authority and the Trustee cannot and do not give any assurances that DTC Direct Participants or DTC Indirect Participants will distribute to the Beneficial Owners (i) principal and interest on the Bonds, (ii) certificates representing an ownership interest in or other confirmation of ownership interests in the Bonds, or (iii) redemption or other notices sent to DTC or Cede & Co., its nominee, as registered owner of the Bonds, or that they will do so on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will service and act in the manner described in the Official Statement.

The Authority and the Trustee shall be entitled to treat the person in whose name any Bond is registered as the Bond Owner thereof for all purposes of the Indenture and any applicable laws, notwithstanding any notice to the contrary received by the Trustee or the Authority; and the Authority and the Trustee shall have no responsibility for transmitting payments to, communication with, notifying, or otherwise dealing with any Beneficial Owners of the Bonds. Neither the Authority nor the Trustee will have any responsibility or obligations, legal or otherwise, to the Beneficial Owners or to any other party including DTC or its successor (or substitute depository or its successor), except for the registered owner of any Bond.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving notice to the Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Bonds are required to be printed and delivered.

THE TRUSTEE, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES TO OWNERS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OF SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

## **APPENDIX F**

### **FORM OF CONTINUING DISCLOSURE CERTIFICATE**

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the City of Belmont (the "City") in connection with the issuance of \$7,500,000 Belmont Joint Powers Financing Authority Sewer Revenue Bonds, Series 2001 (the "Bonds"). The Bonds are being issued pursuant to the Indenture, dated as of December 1, 2001 (the "Indenture"), by and between the Belmont Joint Powers Financing Authority and BNY Western Trust Company, as trustee (the "Trustee"). The City has entered into an Installment Purchase Agreement, dated as of December 1, 2001 (the "Installment Purchase Agreement") with the Authority. Under the Installment Purchase Agreement the City will pay Installment Payments (the "Installment Payment") which will secure in part the Bonds. The City covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Dissemination Agent" shall mean BNY Western Trust Company, or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission (the "SEC") are listed in the SEC website at <http://www.sec.gov>.

"Official Statement" shall mean the Official Statement relating to the Bonds, dated December 5, 2001.

"Participating Underwriter" shall mean the original purchaser of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" shall mean each National Repository and each State Repository.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" shall mean the State of California.

“State Repository” shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Certificate, there is no State Repository.

### SECTION 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than the last day of the ninth month after the end of the City’s fiscal year (presently such fiscal year ends June 30), commencing with the report for the fiscal year ending June 30, 2001, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; *provided* that the audited financial statements of the City may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the City’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) Not later than fifteen (15) Business Days prior to said date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If the City is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the City shall send a notice to each Repository in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

- (i) determine each year prior to the date for providing the Annual Report the Name and address of each National Repository and the State Repository, if any; and
- (ii) (if the Dissemination Agent is other than the City), file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Reports. The City’s Annual Report shall contain or include by reference the:

1. The audited financial statements of the City for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City’s audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

2. Updates for the last fiscal year of the information in the following tables from the Section relating to the City in the Official Statement presented in substantially the same format as such tables:

- (a) Number of Users;
- (b) Revenues by Class of User;
- (c) Five Largest Users; and

- (d) Summary of Historic Operating Results (with debt service and coverage ratio shown.)

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The City shall clearly identify each such other document so included by reference.

#### SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Installment Purchase Agreement or its obligations in relation to the Bonds, if material:

- (i) Principal and interest payment delinquencies.
- (ii) Non-payment related defaults.
- (iii) Modifications to rights of Bond holders.
- (iv) Optional, contingent or unscheduled Bond calls.
- (v) Defeasances.
- (vi) Rating changes.
- (vii) Adverse tax opinions or events affecting the tax-exempt status of the Bonds.
- (viii) Unscheduled draws on the debt service reserves reflecting financial difficulties.
- (ix) Unscheduled draws on the credit enhancements reflecting financial difficulties.
- (x) Substitution of the credit or liquidity providers or their failure to perform.
- (xi) Release, substitution or sale of property securing repayment of the Bonds.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the City determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the City shall promptly file a notice of such occurrence with the Repositories. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Indenture.

SECTION 6. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the

Installment Payments. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 7. Dissemination Agent. The City hereby appoints BNY Western Trust Company to serve as the Dissemination Agent hereunder. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Certificate.

SECTION 8. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

The City acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the City, and that under some circumstances compliance with this Disclosure Certificate, without additional disclosures or other action, may not fully discharge all duties and obligations of the City under such laws.

SECTION 9. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, the sole legal remedy of any Holder or Beneficial Owner of the Bonds or the Participating Underwriter shall be an action to compel performance. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture.

No Bondholder or Beneficial Owner may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the City satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the City shall have refused to comply therewith within a reasonable time.

SECTION 10. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees, to the extent permitted by law, to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 11. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived with the consent of the Authority, provided that, in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule. In the event of any amendment or waiver of a provision of this Disclosure Certificate, the City shall describe such amendment in the same manner as for a Listed Event under Section 5(c).

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Dated: December 19, 2001

CITY OF BELMONT

By \_\_\_\_\_  
Authorized Officer

Acknowledged as to Duties as Dissemination Agent:

BNY WESTERN TRUST COMPANY

By \_\_\_\_\_  
Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Party: City of Belmont

Name of Bond Issue: Belmont Joint Powers Financing Authority  
Sewer Revenue Bonds, Series 2001

Date of Issuance: December 19, 2001

NOTICE IS HEREBY GIVEN that an Annual Report with respect to the above-named Bonds was not released by the City by the date required in the Continuing Disclosure Certificate. [The City anticipates that the Annual Report will be filed by \_\_\_\_\_.]

Dated: \_\_\_\_\_

City of Belmont

By [form only; no signature required]



**APPENDIX G**  
**FORM OF INSURANCE POLICY**

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